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STRATEGIC MANAGEMENT
CONFERENCE**

Searching For Strategies Out Of The Global Recession

July 8-10, 2010 St. Petersburg, Russia

6th. INTERNATIONAL STRATEGIC MANAGEMENT CONFERENCE

“Searching For Strategies Out Of The Global Recession”

July 8-10, 2010
St. Petersburg, Russia

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PREFACE

Dear Colleagues, Ladies and Gentlemen,

Welcome to the Sixth International Strategic Management Conference in St. Petersburg, Russia. On behalf of the Organizing Committee, I would like to extend my heartfelt greetings to all of you and wish you a successful conference that yields many productive academic collaborations and reinforces the already established ties, as with previous meetings of our conference.

The Sixth International Strategic Management Conference is organized jointly by Beykent University, Çanakkale Onsekiz Mart University, and Gebze Institute of Technology, of Turkey. This year we have also enjoyed the academic and financial support of Turkey's State Planning Organization. As Conference Chairman, I deem it a great pleasure to extend my deep appreciation to my colleagues, the presidents of Çanakkale Onsekiz Mart University and of Gebze Institute of Technology, and the distinguished Undersecretary of the State Planning Organization, all of whom also act as the Honorary Presidents of our conference.

This year's conference has received a total of 262 papers from 33 different countries. Some of these papers were submitted as full papers from the start. Unfortunately, some of the extended abstracts were not received as full papers by the deadline given for submission of full papers. In the Proceedings Book and CD that you have, 145 papers are included. These were selected after careful screening.

I am happy to announce that in this year's conference a much wider geography is represented than in previous years. The number of different countries is more than double that in past conferences, and this indicates that we are reaching an ever wider audience of academicians. These 33 countries are: Albania, Australia, Belgium, Bosnia and Herzegovina, Brazil, China, the Czech Republic, Finland, France, Germany, Greece, Hungary, Indonesia, Iran, Israel, Italy, Malaysia, Mexico, New Zealand, Nigeria, Pakistan, Poland, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Thailand, Tunisia, the UK, the USA, and Turkey. Also, some academicians have been unable to attend the conference due to visa problems, which have caused us all much concern. This year two keynote speakers will address you on the strategies out of the global recession.

Ladies and Gentlemen, on behalf of the Organizing Committee, I would once again like to welcome you to the Sixth International Management Conference.

*Prof. Dr.Erol Eren
Conference Chair*

PREFACE

We are pleased to welcome you to the 6th International Strategic Management Conference in St. Petersburg. This year, the theme is “Searching for Strategies out of the Global Recession”.

Participants coming from different parts of the world aim to discuss and explore for strategic management issues and approaches to managing global crises. We are going to debate on different topics including industry analysis, innovation, entrepreneurship, marketing and financial aspects of strategies addressing mainly problems and issues in turbulent environments.

Academicians from different countries submitted original papers for conference presentation and for publication in this Proceedings Book. All competitive papers have been subject to a peer review. The results of the evaluation efforts produced 145 empirical, conceptual and methodological papers submitted from 26 different countries involving all functional areas of strategic management with a specific focus on strategies for the global recession. I would like to express our appreciation to the reviewers for reviewing the papers that were submitted to this conference. We also thank to all those who submitted their work to be considered for presentation at the conference.

I would like to thank to the Rectors of Universities for their continuing cooperation. My special thanks go to Alinur Büyükaksoy, Rector of Gebze Institute of Technology for his valuable support and encouragement.

Many people worked very hard for the realization of this organization. The Conference could not have been held without the diligent work of Professor Erol Eren, Faculty Dean and Chairman of the Conference. He made great effort to organize and perfect all arrangements. Special thanks to him for his leadership and execution of 2010 Conference. I want to extend special appreciation to Mehtap Özşahin for her hard work and commitment to the Conference development. She carefully worked in coordination with us during the all phases of the organization.

We hope that you all will enjoy and benefit from the conference and enjoy your stay in this great and historic city, St.Petersburg.

*Oya Erdil, PhD
Co-Chair*

PREFACE

Strategic management is a term that is acknowledged in areas of individualism to institutionalism, urban government to regional planning and administration of nation to international relations and organizations.

While it was first identified and regarded as a subject of multi-company corporations, today strategic management has gained a strategic identity for every individual, every institution and every nation. Indeed, strategic management that can be defined as decision of long term behavior pattern has become a reality that is required in every field.

Design of strategy in every phase also mediates in planned development. Indeed, definition of vision and mission is a requirement where strategies of objectives and goals are put forward. This requirement cause individuals work for long years and as a result resources are used rationally and performance levels of managers increase.

Six years ago we have decided to organize international strategic management conference at an institutional level and led by Prof. Erol EREN in order to expand the concept of strategic management perception in this way and context in Turkey. First conference was organized in Çanakkale by Çanakkale Onsekiz Mart University, Gebze Institute Technology and İstanbul Ticaret University. Conference has developed its international feature and gained an internationally institutionalized identity.

The theme of the conference which will be held for the sixth time this year also has significance. "Searching For Strategies Out Of The Global Recession" is quite a significant theme in today's conjuncture since the crisis itself is a natural possible result and expectation of the globalization. Therefore it is not a conjectural happening but a structural phenomenon.

Yet, a strategic approach to global crisis and crisis in general is a requirement as a structural phenomenon. Design of strategies in getting over from crisis and reaction to crisis both in macro level and institutional level is another requirement. In this regard we will have the opportunity to see significant crisis strategies proposals in the 6th International Strategic Management Conference.

I wish a successful organization of 6th International Strategic Management Conference and thank everyone for their efforts in the event.

*Prof. Ali AKDEMİR
Co-Chairman of the Conference
Rector
Canakkale Onsekiz Mart University*

FOREWARD

Dear Colleagues,

On behalf of Beykent University, I would like to express my pleasure at holding the Sixth International Strategic Management Conference at the historic city of St. Petersburg. Ever since its establishment our conference has enjoyed the generous support of two important institutions: Gebze Institute of Technology and Çanakkale Onsekiz Mart University. Both institutions have displayed an extraordinary effort in collaborating with Beykent University in the preparation of this conference over the years. I would like to express my deep gratitude to my colleagues, Professor Alinur Büyükaksoy, the President of Gebze Institute of Technology, and Professor Ali Akdemir, the President of Çanakkale Onsekiz Mart University.

In addition, this year the Conference has benefited from the academic and financial support of the State Planning Organization, an institution that plays a critical role in the long-term economic planning for Turkey. I would like to extend my sincere appreciation to the State Planning Organization in the person of the Undersecretary, Mr. Kemal Madenoğlu. I would also like to thank all of the institutions and the individuals who have contributed to the organization of this conference.

The Sixth International Strategic Management Conference enjoys the participation of academicians from 33 different countries. Represented are nearly all of the countries of Europe, and also countries from the continents of Asia, Oceania, Africa, and America. The number of countries has more than doubled compared to previous years. I would like to express my appreciation and respect to all of the distinguished academicians who have contributed their academic endeavors from all around the world.

Putting together a truly international conference requires a lot of organizing and the synergy of a harmonious team. In the person of the Conference Chair, Professor Erol Eren, I congratulate all of the members of the Organizing Committee and the Advisory Board and Peer Review Committee.

It is my sincere wish that the Conference is productive and successful for all of the participants.

*Professor Ahmet Yüksel
President
Beykent University*

FOREWORD

Dear Colleagues,

On behalf of my university and staff members I would like to welcome the delegates of the 6th International Strategic Management Conference with the theme “Searching for strategies out of the global recession” organized jointly by Beykent University of İstanbul, Turkey, the Gebze Institute of Technology of Kocaeli, Turkey, and the Çanakkale Onsekiz Mart University of Çanakkale, Turkey.

As Gebze Institute of Technology, we are extremely pleased to have participated in the organization and realization of this series of conference and many of others which contributes our aim of concentrating on scientific events. This year, we provide our support for the success of the 6th International Strategic Management Conference which will be held in historic city of Saint Petersburg, Russia.

My special thanks go to Professor Ahmet Yüksel, Rector of Beykent University, and Professor Ali Akdemir, Rector of Çanakkale Onsekiz Mart University who give the excellent example of cooperation to realize this successful event. I would like to express my sincere hope that this cooperation will continue in the coming years.

Professor Dr. Erol Eren, Dean, and the President of the Organizing Committee, successfully lead the organization the last five years. I would like to thank to Dr. Eren for his valuable efforts. I also would like to thank to colleagues and staff of our Faculty of Business Administration for their hard work.

It is our sincere hope that you will enjoy both the academic discussions and social events of the Congress and your stay in St. Petersburg.

*Alinur Büyükkaksoy (Ph.D.)
Rector
Gebze Institute of Technology*

STRATEGIES FOR THE GLOBAL CRISIS

MANAGING LARGE CORPORATE CRISIS IN ITALY. AN EMPIRICAL SURVEY ON EXTRAORDINARY ADMINISTRATION

Alessandro Danovi
Bergamo University, Italy

ABSTRACT

This paper aims at presenting some initial empirical evidence regarding Extraordinary Administration (amministrazione straordinaria), a sort of Italian Chapter 11. This procedure was introduced into Italian bankruptcy legislation in 1979, in order to manage large corporate crises. It was reformed afterwards in 1999 and amended in 2003 and 2008 to deal with two of the biggest Italian crises, the Parmalat and Alitalia cases.

While there is an ample theoretical framework on the legal aspects (for a general overview in English see Panzani, 2009), economic issues have not been thoroughly addressed. Among the few we refer to Floreani, 1997; Leogrande, 2003; Danovi, 2003; Falini 2008.

The paper investigates, how the procedure was put into effect between 1999 and 2008. Sources of information are documents available from the Ministry of Industry, which sets out the procedure and has to approve the restructuring plan and the Court Houses that are empowered to accept filing for EA, in cases of insolvency. The data collected, regarding almost all cases ruled by Act 270/1999 refer to 57 groups composed by 183 companies.

Specifically the empirical survey discusses: i) the economic relevance and size of the phenomenon; ii) the characteristics and assets of the companies involved; iii) timeframes and management aspects; iv) safeguarding of the work force.

The main conclusion is that the new law is more concentrated on recovering entrepreneurial activities through the sale of companies and not on true restructuring. This seems correlated to the short timespan for carrying out the process, as well as the excessive indebtedness of companies which file for EA.

Under a strictly economic profile, the results of administrator management show operative inefficiency which is difficult to overcome in the time period available for the process.

The author is aware that because of the statistical limits the analysis can be considered an initial survey, but it is worth presenting as the basis for future studies and to create the conditions for proper discussion for a procedure whose real effect is often merely imagined, rather than known.

Key words: Corporate restructuring; bankruptcy procedures in Italy; Extraordinary Administration

Jel classification: G33 - Bankruptcy; Liquidation; K35 - Personal Bankruptcy Law

INTRODUCTION

Extraordinary Administration (amministrazione straordinaria), a sort of Italian Chapter 11, was introduced in Italian bankruptcy legislation in 1979, by Act 270/1999, in order to manage large corporate crises. It was reformed afterwards in 1999 according to EU recommendations and amended in 2003 and 2008 to deal with two of the biggest Italian crises, the Parmalat and Alitalia cases.

Differently from other Italian bankruptcy procedures, Extraordinary Administration is a sort of hybrid since it is under the jurisdiction of both the administrative authority (Ministry of Industry) as well as the Court. Currently there are two distinct phases. During the initial “observation” phase, an extraordinary administrator manages the company and also has to verify whether there is a real possibility for recovery. During the second phase (“recovery phase”), the restructuring program prepared by the administrator follows a going concern logic, and the company can either be sold to other investors or guided towards a stand alone recovery. If according to the program only some divisions of the company are sold, after the sale, the rest has to be liquidated (“liquidation phase”).

As often happens with bankruptcy laws, there is ample theoretical framework and many studies have been carried out, focused on the legal aspects (Alessi, 2000; Costa, 2008; Ponti & Spadetto, 2006, Stanghellini, 2007 for a general overview in English see Panzani, 2009), while economic issues have not been thoroughly

investigated. Among the few we refer to Floreani,1997; Bertoli, 2000; Leogrande, 2003; Danovi, 2003, Lacchini et Al. 2005; Falini, 2008a and b.

In such a context, this paper aims at presenting some initial empirical evidence regarding how the procedure was put into effect between 1999 (the year of the reform) and 2008. The research follows the ideal framework of the most complete empirical study in Italian literature (Floreani, 1997) which studied the phenomenon before the reform, analysing almost all cases up to 1996. It is a useful tool for comparing the effect of the new law on corporate reorganization in Italy.

Information sources utilized to carry out the study were documents available from the Ministry of Industry, which sets out the procedure and has to approve the restructuring plan, and the Courts, that are empowered to accept filing for EA, in case of insolvency. The data collected, regarding all cases filed under Act 270/1999 (“Legge Prodi bis”), refer to 57 groups composed of 183 companies. The analysis was carried out on the EA cases under Act 270/1999 as it was more widely used than the revised version ruled by Act 39/2004.

The paper is divided into the following sections: §2. Characteristics of group involved. - § 3. Causes of the Crisis and the situation at filing. -§ 4. Management and Liquidation Phase. – § 5. Conclusions.

The main conclusions are as follows:

- The new legislation widened the sphere of application: the regulations introduced by the Act of 1999 notably increased the area of application, extending the intervention of the administrative authority to protect industry and national employment levels;
- The analysis of sectorial distribution illustrates how the phenomenon especially effects industrial sectors, like engineering and textiles, as well as commerce and wholesale, the same sectors especially hit by the crisis in Italy;
- Filing for EA often happens too late and this delay has negative effects on the possibility for recovery. The principle of “merit” introduced by the new legislation, based on the observation phase, is an important filter for singling out companies which are effectively salvageable;
- The economic rebalancing of the companies seems to have been pursued almost exclusively through the sale of the whole company or at least some divisions to other competitors. There are only three cases of stand-alone restructuring. This suggests that the new legal tools serve to foster sales rather than carry out real internal recovery.
- The aim to protect the workers seems to be reached in the majority of cases through the transfer of a significant number of employees (about 51%) with the company still functioning. EA seems to be useful in safeguarding the work force in most cases.
- The deadlines fixed for the execution of the program have produced tangible benefits on the duration of the procedure, at least as far as regards the recovery phase.
- The liquidation phase is the most complex of the entire procedure. In fact, for those still in progress (87%), the total timeframe is more than 6 years, similar to Italian bankruptcy procedures.
- In conclusion, while EA has proven to be generally efficient, effects on creditor’s rights are variable: in some cases there are significant recovery ratios, in others the percentages are not far from the ones creditors could have had if the company had gone bankrupt.

The author is aware that because of the statistical limits, this analysis can be considered as an initial survey. From a methodological point of view, it is necessarily more descriptive than analytical. The size of the sample, in fact, while often representing the whole population, is too small to find statistically significant correlations. It is meant as the basis for future studies, to create the conditions for proper discussion for a procedure whose real weight is often merely imagined, rather than known.

CHARACTERISCS OF GROUPS INVOLVED

After Act 270/1999 was approved and up to November 2008, 57 groups for a total of 183 companies filed for EA.

Table 1- EA Admission Over Time

A- Year by year

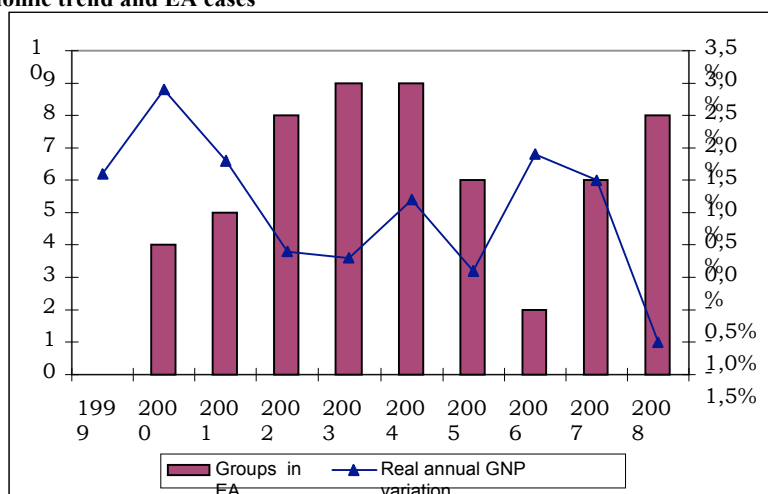
Year	Groups	Companies		Groups	Companies
1999	0	0	2004	9	29
2000	4	20	2005	6	11

2001	5	18	2006	2	13
2002	8	13	2007	6	17
2003	9	40	2008 (up to Novembre)	8	22
Total	57	183			

Source: Ministry of Industry data

Most admissions took place between 2003-2005 (42% for groups and 44% for single companies).. The frequency appears linked to the general economic trend: the increase in the number of cases filed followed the downturn of the economy, with the usual delay as illustrated below. Vice versa, there were just a few cases during the expansive phase of the cycle. Figure 1 illustrates the existing relationship between the dynamic of the real GNP and the number of cases filed. In light of the present significant crisis, a great increase in the phenomenon in the near future is expected.

Figure 1: The economic trend and EA cases



Source: Ministry of Finance and Ministry of Industry data

Following the national economic trends, a larger number of groups filed for EA during the last decade. Fewer companies filed between 1999-2008 (183 against 229), but more groups were involved (57 against 25). This can be explained in light of the following elements introduced by the new law (Danovi, 2003, 71):

- lowering the dimension required to file for EA led to filing by smaller groups;
- greater access selectivity, i.e. only for recoverable companies as well as the removal of automatic extension to all other distressed companies within the group.

Analysis of the sectorial distribution shows how the phenomenon affects the engineering, textile, commercial and distribution sectors. The high incidence of significant difficulties in the engineering field is due to the stagnation of 2007-2008. The textile sector also made widespread use of EA, particularly in 2006-2008. There is a correlation between the incidence and the economic sector trends, which experienced severe structural crises in the last years.

The entity of the crisis that has hit the industrial sector and the importance of EA is also illustrated in the Report on the State of Industry (Ministry of Industry & IPI 2003), which discusses crisis situations between 2002 and 2003. EA seems to be a solution to company crises, especially in industrial sectors.

Table 2 - Sectorial subdivision of the groups in EA

Sector	Total 2000-2008		2000-2002		2003-2005		2006-2008	
	Count	%	Count	%	Count	%	Count	%
Food	2	3.51%	1	5.88%	1	4.17%	0	0.00%
Textiles and clothing	9	15.79%	2	11.76%	3	12.50%	4	25.00%
Paper and Publishing	3	5.26%	2	11.76%	1	4.17%	0	0.00%
Chemical	1	1.75%	1	5.88%	0	0.00%	0	0.00%
Commerce and distribution	6	10.53%	1	5.88%	4	16.67%	1	6.25%
Construction	4	7.02%	2	11.76%	1	4.17%	1	6.25%
Engineering	15	26.32%	4	23.53%	5	20.83%	6	37.50%

Electronics	3	5.26%	0	0.00%	3	12.50%	0	0.00%
Steel and Metallurgy	4	7.02%	3	17.65%	0	0.00%	1	6.25%
Plant Design	1	1.75%	1	5.88%	0	0.00%	0	0.00%
Transport	2	3.51%	0	0.00%	1	4.17%	1	6.25%
Telecommunications	4	7.02%	0	0.00%	4	16.67%	0	0.00%
Services	3	5.26%	0	0.00%	1	4.17%	2	12.50%
Total	57	100.00%	17	100.00%	24	100.00%	16	100.00%

Source: data from various files and from Mediobanca, 2000-2008

The size of groups involved can be evaluated from the number of employees (Table 4), the first requirement for access to the procedure or, for a smaller sample, from the company turnover (Table 3).

Table 3 - The turnover of companies which accessed EA

Turnover (millions of Euro)	Count	%
more than 200	4	26.67%
from 100 to 200	5	33.33%
from 50 to 100	4	26.67%
less than 50	2	13.33%
Total	15	100.00%

Source: Mediobanca, 2000-2008

About a third (33%) of the companies included in the sample had a turnover between 100 and 200 million Euro. A significant percentage (more than 26%) had a turnover between 50 and 100 million Euro or over 200 million Euro. The other companies do not exceed 50 million. Within four listed companies that filed for EA only one had a turnover of over 200 million Euro and this can be interpreted under a double profile: on the one hand, it is possible that the listed companies, since they are subject to greater controls, file more rarely; on the other hand, there is a sort of self-exclusion from the sample. Since 2003 the largest listed companies can file more easily for the new version of the law (under Act 39/2004), not included in our sample.

Table 4- The size of groups based on the number of employees

Employees	Entire period 2000-2008		2000-2002		2003-2005		2006-2008	
	Count	%	Count.	%	Count.	%	Count.	%
between 1000 and 2000	5	8.77%	1	5.88%	1	4.17%	3	17.65%
between 500 and 1000	11	19.30%	2	11.76%	7	29.17%	2	11.76%
less than 500	41	71.93%	14	82.35%	16	66.67%	11	64.71%
Total	57	100.00%	17	100.00%	24	100.00%	16	94.12%
<i>Average and median employees per group</i>								
Average	444		358		469		499	
Median	324		265		352		365	

Source: Ministry of Industry data

In all, 25,308 workers were employed by companies that filed for EA between 2000 and 2008. More than half of the groups had fewer than 500 employees and during the first three years (2000-2002), almost all had fewer than 1000 employees. From 2003-2005, even though the majority of cases regarded companies with fewer than 500 employees, there was an increase in cases which involved groups between 1000 and 2000 employees. This is linked to the general crisis in labour intensive sectors (see Table 2). The smaller number of large groups is due to the fact that since 2003 these crises have been dealt with using EA in accordance with Law 39/2004, not included in our sample.

As the median data in 2000-2002 is under 300 employees, many groups would not have been able to access EA because of the size limit under the previous Law 95/1979 that required more than 300 workers. Compared with previous data (Floreani,1997), the dimension of the groups involved under the new regulations is much smaller, suggesting that the renewed procedure involved medium-large sized companies.

CAUSES OF CRISIS AND THE SITUATION AT FILING

Once the state of insolvency has been declared by the Court, the observation phase of the procedure begins, aimed at verifying whether there are the conditions for restructuring.

Table 5 illustrates the main causes of the crises as singled out in administrator reports regarding a sample of 22 companies, the largest industrial holdings (subsidiaries are not considered).

Table 5 - The main cause of the crisis.

Factors of the crisis	Count	%
Strategic errors	6	27.27%
Overcapacity/rigidity	5	22.73%
Decline of product/market/technology combination	4	18.18%
Financial and asset imbalance	7	31.82%
Total	22	100.00%

Source: Administrator reports

According to the administrator reports, the reasons for the crisis are as follows:

- strategic errors, due to acquisition or investment operations without appropriate financial planning;
- rigid conditions in the production structure, due to prediction errors which have led to an excessive production capacity. This condition generates fixed costs that are not in proportion to the turnover, with the consequent lowering of operational margins and cash flows;
- decline of the product-market-technology: errors in the market choice, loss of brand image, bad product mix, lack of distribution channels. These errors result in lower competitiveness and consequently in the loss of company market quotas;
- financial imbalances, due to excessive leverage, lack of correlation between sources and uses of funds and insufficient liquidity.

The causes listed above refer to internal company factors, as stated in Italian economic literature (Brugger, 1984; Guatri, 1995). Sometimes the crisis originates from external factors, which management wasn't able to or didn't wish to face, like market globalization, economic cycle trends and changes in consumer behaviour. In many cases, before filing, companies unsuccessfully tried to negotiate a financial settlement through a workout or a preventive creditors' settlement.

Data show a generalized delay in filing. This happens especially when entrepreneurs are unwilling to give up management and leads to a higher percentage of debts on the total assets of the company.

The lateness of many insolvency claims is shown by the balance figures for a sample of 54 companies, for which financial statements at the date of filing were available.

Table 6 – Percentage of assets vs. debts when EA is filed

	Sample 2000- 2008	Sub-sample Companies' balance sheet data	Administrators' data
Average	55.43%	66.62%	36.46%
Median	50.65%	75.55%	40.09%
Count	54	16	16

Source: Company financial statements and administrator reports

Net assets vs. the total debt ratio, which approximates the likelihood of satisfying creditors, seems to be almost half but, for a smaller sample of 16 companies in which comparison is possible, administrator-reviewed data show completely different figures from the company balance sheets (Table 6).

Company financial statements overestimate the asset value by about 30%. This is due to the habit of window dressing (when not falsifying) figures during the period of decline.

MANAGEMENT AND LIQUIDATION PHASE

If the administrator report states that there is a real possibility for recovery, the second phase of the procedure starts with a Court Order. During this phase, EA can be extended to other insolvent companies within the group. In our sample this happened 33 times, involving 126 companies.

About 23% of the group companies in EA were considered recoverable, while the other 77% was attracted by virtue of the opportunity for unified management of insolvency. The significant number of companies admitted due to unified insolvency management is a result of the articulation of industrial groups which include various financial companies without productive activities, for which there is no foreseeable reallocation in the market. Considering the total number of companies (183 units), 47% of them presented the conditions for economic recovery. 53% of the companies in the group do not appear to be recoverable, and are thus destined to be liquidated. For companies with the possibility for recovery (86 as shown above), the appropriate program was adopted.

Table 7 - Types of authorized programs

Types of programs	Sample 2000-2008			
	2000-2002	2003-2005	Sub-samples	
			2003-2005	2006-2008
Sale programs	76	27	31	18
Restructuring programs	3	0	3	0
Unavailable data	7	0	0	7
Count	86	27	34	25

Source: Ministry of Industry data

The recovery was carried out almost exclusively through sale programs. Only one group (Arquati) really turned around in 2005, through an agreement with creditors. This evidence is due to the fact that the choice to recover is obviously more complex than simply a sale of the factories. In fact, a stand-alone recovery process necessitates the continuation of the activities while a buyer is sought for the company facilities. Perhaps the EA procedure lacks appropriate tools to implement economic and financial restructuring, while the new version under Law 39/2004 seems to be better equipped to reach this goal.

The Judiciary Authority is granted the power to convert the procedure into bankruptcy when it cannot be successfully followed through or when the program has not been carried out according to the terms set out. This provides greater protection for creditors. This aspect has been evaluated for a sample of companies (see Table 8) and either leads to: a) a physiological result: the sale of the company or the turnaround; b) a pathological result: the declaration of bankruptcy.

Table 8 -Result of the execution of the program

Result	Sample		Subsample					
			2000/2002		2003/2005		2006/2008	
Sale of the company	53	61.63%	23	85.19%	27	79.41%	3	12.00%
Restructuring	6	6.98%	2	7.41%	4	11.76%	0	0.00%
Bankruptcy	4	4.65%	2	7.41%	2	5.88%	0	0.00%
in progress up to Nov. 2008	23	26.74%	0	0.00%	1	2.94%	22	88.00%
Count	86	100.00%	27	100.00%	34	100.00%	25	100.00%

Source: Ministry of Industry data

In the majority of cases the execution of the program led to the sale with the total liquidation of the company. The only recovery from 2003-2005 was for the already mentioned companies in the Arquati group, which underwent economic and financial restructuring.

Bankruptcy was declared in 4 cases: in one case for one of two branches of a company, in another for the only company it was not possible to sell, despite the sale of the group. The other bankrupt companies belonged to two groups which, during the recovery phase, were evaluated to not have concrete perspectives for restructuring.

The objective to safeguard employment has generally been achieved in cases where the greatest number of employees were transferred with the company to other entrepreneurs. Out of 55 recoverable companies which completed the program, 49 companies transferred the employees according to the table below:

Table 9 -Employees transferred with their companies

Period	Companies	Employees	Transferred employees	%
2000-2002	24	6575	3875	58.94%
2003-2005	23	10352	4713	45.53%

Subtotal	47	16927	8588	50.74%
2006-2008	2	865	666	n.s.
Total (surveyed)	49	17792	9254	52.01%
Not surveyed	6			
Total programs concluded	55			

Source: Ministry of Industry data

The total number of employees at filing in the groups examined was 17,192, of which 9,254 were transferred with the sale of the companies while 4,359 remained in charge of the procedure. The other employees found a different collocation during the initial phase of EA.

The liquidation phase characterizes only those EA procedures involved in a sale program. During this phase, besides following up the sale of the company, cash is returned to creditors.

Table 10 illustrates closed procedures and their duration (not including companies that went bankrupt).

Table 10 - Closed procedures and their duration

	Closed	Open	% Closed	Duration (in years)	
				Average	Median
2000-2002	6	43	12.24%	4.52	4.67
2003-2005	5	67	6.94%	1.98	1.98
2006-2008	0	52	0.00%		
Count	11	162	6.36%	3.36	1.98

Source: Ministry of Industry data

Of all the cases filed between 2000 and 2008, only 11 completed the liquidation phase with an average duration of 3.36 years. During both the first and second periods there were cases which ended with creditors' settlements (see Table 11), so the average duration was lower.

In fact, considering that less than 13% of the procedures initiated in 2000-2002 were completed by 2008, the other 87% will last more than 6 years. The liquidation phase lengthens the total duration, bringing it close to the 9-year period seen for bankruptcy procedures in recent times.

Such a time frame, if it should continue over the next years, would constitute a serious disadvantage for creditors, who have already been relegated a marginal role in EA, besides making the procedure more onerous but the average timespan is shorter than the one for procedures under Act 95/1979 (Floreani, 1997).

There are 4 ways EA can end: the lack of passivity (that never occurs), recovery, settlement with creditors, debt payment (even in percentage). Table 11 shows the closures for each of the 11 completed procedures.

Table 11 - Closures for the procedure

Closures for the procedure	Count	%
Creditors settlement	8	72.73%
Partial debt payment	3	27.27%
Total completed procedures	11	100.00%

Source: Ministry of Industry Data

About 73% of the procedures ended with a creditors' settlement, while the remaining 27% paid a percentage of the debts. In the cases considered, the creditors' settlement was chosen by large companies with the chance to restructure, while ending the procedure due to percentage debt payment regarded smaller companies under EA for group reasons.

CONCLUSIONS

During the period 1999-2008, a total of 57 groups (186 companies) filed for EA. If this data is compared to cases filed under the previous Law between 1989 and 1998 (25 groups with 225 companies), access to EA is more than double. This can only be partially blamed on the diverse economic trends during the two time periods studied.

The dimension of the phenomenon is even larger considering that 8 other large groups made up of 130 companies filed for EA under the Act 39/2004 version. The average dimension of the groups is far lower

with respect to those filed under the previous regulations. Roughly 72% of the companies have fewer than 500 employees and the average number of employees per group is 444.

If we consider that 26 of the 57 cases filed involve companies with fewer than 300 employees (the minimum required by Act 95/1979), the increase of eligible companies, thanks to the new law, is evident.

The distribution analysis of EA cases over time confirms the close link between this management tool and insolvency situations together with the trend of the economy. 42% of the cases, in fact, were filed between 2003-2005, and 15% in 2008, periods characterized by the worst variations of the real GDP in the decade.

The spreading of the phenomenon seems to be linked to trends in specific economic sectors (engineering, textile, distribution) which showed signs of weakness throughout the period, and resorting to EA was a last attempt in order to preserve existing production capacities and protect employment levels.

These two aspects seem to confirm the growing importance that EA has taken on as a tool of political economy.

The causes of bankruptcy were investigated for a few companies. Court documents show that the main causes of bankruptcy were strategic management errors (mistaken acquisitions, activation of new markets without adequate production and financial planning), decline in the market-technology combination due to a delay in the perception of the market and the sector, greater production supply with respect to the demand because of not reaching the required targets. These factors, if not dealt with in a timely manner, seriously altered the income capacity of the company, feeding into a progressive financial imbalance. The causes for the crisis were not sudden, as can be seen in the financial statements of these companies in the years preceding filing. The situation of the companies when EA was put into effect is the result of a progressive degeneration of the economic-financial structure of the company.

This situation was examined in light of the total profit/debt proportion (which approximates the capacity to satisfy company creditors) in a sample of 54 companies from 18 groups. The result shows high indebtedness (the proportion is about 55%), close to figures for companies which filed for EA before the new Law (about 58%; see Floreani, 1997).

If we consider the filing costs and the fact that among creditors 31% were secured creditors (often mortgages), the possibility to satisfy the unsecured creditors decreases significantly.

The delay with which the state of insolvency is declared will last as long as this serious problem is not recognized in time, both by the entrepreneur and the creditors.

Regarding the recovery phase, only 86 of the 183 companies involved were deemed to be recoverable and placed in a sale and/or a restructuring program, while the others were simply destined to be liquidated. This is a positive result, which means greater rapidity and facilitates the process, resulting in lower direct costs.

The analysis of administrator programs shows the generalized tendency towards sale for companies (in the sample studied, there were only 3 restructuring programs, all for companies belonging to the same group). Thus it seems that the new law is more concentrated on recovering entrepreneurial activities through the sale of companies and not on true restructuring. This seems correlated to the short timespan for carrying out the process, as well as the excessive indebtedness of companies which file for EA.

Continuation of company activities and the consequent sale of the company is aimed at safeguarding employment levels. In a sample of 49 companies which completed the program, at the beginning there were 17,792 employees. Following the sale of the company, the transferred employees were 52.01% of the total, and 24.50% of them were still employed by the company until liquidation. The remaining 23.49% were no longer employed, having found other alternatives. These results are better than those for the period 1989-1998 under the previous legislation.

As far as regards the liquidation phase, the analysis was carried out for only 11 companies, the only ones which had completed this phase (8 cases of creditors' settlements and 3 for final partial debt payment). The average duration for the liquidation phase in these cases was 3.36 years, an encouraging result, influenced by 8 cases which ended with creditors' settlements. If we consider that 87% of the cases filed in 2000-2003 are still in progress, we can say that the liquidation phase lasts longer than 6 years. This is close to the time period ascertained for bankruptcy procedures in Italy.

Because of the statistical limits, this analysis must be considered as an initial survey and the basis for future studies, but we hope it sheds light on a procedure whose real economic weight is often merely imagined, rather than known.

METHODOLOGICAL APPENDIX

The aim of the present study was to supply initial empirical evidence regarding how EA was carried out since its introduction in November 2008 by Act 270/1999. We decided to limit the field of survey to the EA procedures filed under the “Prodi bis” Law, including all the cases filed between 1999-2008. Cases filed under Law 39/2004 (“Marzano Law”) were left out. Our sample is composed of 57 groups and 183 companies. The phenomenon has been analyzed in its *globality* in order to emphasize the following aspects:

- the number of cases filed (Table 1) and the relation to the economic trend (Figure 1) and sectors (Table 2).;
- the relevance of groups which filed for EA, based on the dimension of their economic activity (Table. 3) and the number of employees involved (Table 4);

As far as regards how the cases were handled, we examined representative samples of the phenomenon, based on the possibility to gather informations.. Regarding the diagnostic phase, empirical research was carried out on:

- the causes of the crisis (Table. 5): for 22 groups;
- the asset of the companies when they filed (Table 6): for 54 companies and the comparison between the figures provided by the company and those provided by the administrator (Table 6): for 16 companies

Regarding the management phase, the study focused only on companies “with real possibilities for economic recovery”, since for these companies there is a specific, alternative program designed according to Art. 27, while other companies involved underwent liquidation. The study showed that 86 of the 183 companies which filed for EA met the requirements for recovery, and within this sample the types of programs adopted was examined (Table 7) and the result (Table 8).

companies from 36 groups which completed the sales program offered information on the number of employees transferred (Table 9) for a sample of 49 companies. To homogenize the sample, we decided not to include companies belonging to the Arquati group, under economic and financial restructuring, as well as EA cases which led to bankruptcy.

The results of the data gathered is summarized in the following prospectus.

Prospectus 1 – Sample Composition

GROUPS	Date of the main procedure	Count of companies in EA	Companies which meet ex art.27 requirements	Inclusion in the Mediobanca sample	Causes of the crisis	Situation at the time of filing for EA	Result of commissariale management
1. GRUPPO BONGIOANNI	27/03/2000	21	7		X	X	X
2. GRUPPO FIORONI	07/04/2000	8	2		X	X	
3. CALZIFICIO CARABELLI S.p.A	19/06/2000	1	1				
4. TIBERGHEN MANIFATTURA TESSILE S.p.A.	18/08/2000	1	1	X	X		
5. GRUPPO CONFALONIERI	05/04/2001	4	3				
6. SCALA S.p.A	22/06/2001	1	1	X	X	X	
7. K&M INDUSTRIE METALMECCANICHE S.p.A.	06/07/2001	1	1		X	X	
8. FLEXIDER S.p.A.	14/09/2001	1	1		X	X	
9. GRUPPO ILVA PALI DALMINE	14/11/2001	3	1		X		
10. GRANDE DISTRIBUZIONE AVANZATA S.p.A.	08/02/2002	1	1		X	X	
11. SOCIETA' ITTICA EUROPEA S.p.A.	21/05/2002	1	1				
12. OCEAN S.p.A	03/06/2002	1	1	X			
13. GRUPPO ITEA	19/06/2002	2	1				
14. GRUPPO COSTAFERROVIARIA	13/08/2002	3	2		X	X	
15. MILANOSTAMPA S.p.A.	10/08/2002	2	1				
16. A T B S.p.A.	02/09/2002	1	1	X			
17. GRUPPO FEDERICI STIRLING	20/09/2002	4	1				
18. G.E. Gruppo ELDO S.p.A	29/01/2003	7	1				
19. MANZONI Group	12/02/2003	2	1	X	X	X	X
20. S.r.l. - ISTITUTO DI VIGILANZA PARTENOPEA	03/04/2003	1	1				
21. GRUPPO CE.DIS.	03/07/2003	3	1				
22. GRUPPO MERKER	04/07/2003	6	3		X	X	
23. GRUPPO COOPCOSTRUTTORI	13/08/2003	5	1	X			
24. GRUPPO CIRIO	10/10/2003	12	1		X		
25. GRUPPO TECNOSISTEMI	22/12/2003	8	1		X	X	
26. GRUPPO GIACOMELLI	28/11/2003	8	1	X			
27. CE.SA.ME. Ceramica Sanitaria del Mediterraneo S.p.A.	19/01/2004	1	1				
28. MINERVA AIRLINES S.p.A.	25/02/2004	1	1				
29. ALGAT S.p.A.	10/03/2004	1	1				
30. FERRANIA S.p.A.	14/04/2004	1	1				
31. GRUPPO ARQUATI	01/04/2004	4	4				

32. GRUPPO COMPUTER MANUFACTURING SERVICE	05/07/2004	6	6				
33. GRUPPO CARTIFICIO ERMOLLI	22/11/2004	3	1	X	X	X	
34. OLCESE S.p.A	14/12/2004	1	1	X	X	X	X
35. GRUPPO LARES COZZI	22/12/2004	2	1		X	X	X
36. GRUPPO FORMENTI SELECO	02/02/2005	2	1		X	X	X
37. TREND S.p.A.	08/03/2005	1	1				
38. GRUPPO TECDIS	20/07/2005	2	1				
39. GRUPPO F.D.G.	07/07/2005	2	1				
40. GRUPPO SELFIN	20/09/2005	9	4		X	X	
41. GRUPPO LAMIER	09/11/2005	3	3		X	X	
42. GRUPPO IAR SILTAL	06/04/2006	2	2	X	X		
43. SANDRETTO INDUSTRIE S.r.l.	05/05/2006	1	1				
44. GRUPPO LANIFICIO LUIGI BOTTO	31/01/2007	3	3	X			
45. GRUPPO TECNO A.	30/01/2007	4	2				
46. BBS RIVA S.r.l.	18/07/2007	1	1				
47. GRUPPO RAUMER	25/09/2007	6	1	X			
48. ISTITUTO VIGILANZA DELL'URBE	08/11/2007	1	1				
49. SOCIETA' EUROPOL GUARDIE	31/10/2007	1	1				
50. GRUPPO FILATURA GRIGNASCO	11/02/2008	3	1	X			
51. SOCIETA' ROMAGNA RUOTE S.r.l.	27/02/2008	1	1				
52. SOCIETA' CARROZZERIA BERTONE	08/04/2008	1	1	X			
53. GRUPPO TOORA	17/04/2008	2	1		X	X	
54. GBS GROUP	06/05/2008	4	1		X	X	
55. ALPI EAGLES	29/05/2008	1	1				
56. GRUPPO MAHA S.p.A	26/06/2008	1	1				
57. GRUPPO LEGLER	25/11/2008	4	1	X			
TOTAL		183	86	15	22	18	5

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IMPACT OF THE GLOBAL CRISIS ON THE GOVERNANCE STRUCTURES OF INTERNATIONAL FINANCIAL INSTITUTIONS

Adem Çabuk
Yalova University, Turkey

Gökhan Özkan
Yalova University, Turkey

İsmail Aktar
Kırıkkale University, Turkey

ABSTRACT

The global financial crisis dragged many countries into recession, demonstrated that the international financial system has structural problems and started discussions about restructuring of the international financial institutions. The main objective of this paper is to investigate the impact of the global financial crisis on the governance structures of the international financial institutions. To this end, studies made at different international platforms were evaluated. The debates and negotiations among the developed and developing countries about governance structures of the international financial institutions were analyzed. Developing countries' demand to reform the decision-making mechanisms of the Bretton Woods institutions, the IMF and the World Bank and developed countries' reservations were investigated. It was concluded that the new shape of the international financial architecture and governance structures of international financial institutions will depend on international politics as well as the evolution of the global crisis and the economic dynamics. It is anticipated that the restructuring process will proceed slowly because of the complex relations between the international financial system and the international politics.

Keywords: Governance structures, international financial institutions, global crisis, international politics

INTRODUCTION

At the Bretton Woods Conferences in 1944, international monetary system was determined as adjustable peg system tied to the U.S. dollar and gold, the IMF and the World Bank were established, and the Bretton Woods System was constituted. After the collapse of the Bretton Woods System in 1971; volatility in exchange rates, technological innovation, which has accelerated economic integration through virtual and physical time-space compression (Harvey, 1989), and financial liberalization reforms, which led to an increase in levels of capital account openness and financial openness, (Walter and Sen, 2008: 122) increased and accelerated international capital movements and many developed and developing countries entered into financial crises.

The global financial crisis, which started in the U.S., is the last and the largest of these crises. Because of the degree of globalization in financial markets, global crisis quickly spread to other countries. (Yunus, 2009: 6) The globalization of capital has been an integral part of the scale of the financial crisis. (Legg and Harris, 2009: 369) The global crisis started discussions about the restructuring of the international financial system. Some scholars argue that significant transnational regulatory initiatives will advance as a result of the financial crisis. In the contrary, some scholars think the crisis is generating a reassertion of state authority over international financial markets. (Helleiner, 2009a:1) Nonetheless, it is generally accepted that international financial architecture, which is likened to oil in our cars that lubricates the engine of world growth (El-Arian, 2009:88), is far from preventing crises.

The developed countries, particularly the G-7 countries and the developing countries, particularly the BRIC countries (Brazil, Russia, India and China) tried to shape the restructuring process of the international

financial system and the international financial institutions according to their interests. Divergence between the perspectives of developed and developing countries transformed the restructuring process into a political process. It is expected that besides accelerating the restructuring of the international financial system, the financial crisis will have geopolitical reflections (Burrows and Harris, 2009) and the international balance of power will find a new equilibrium because of the crisis. (Germain, 2009)

This paper aims to investigate the impact of the global financial crisis on the governance structures of the international financial institutions within context of international politics. The article proceeds in the following manner. First, impact of the global financial crisis on the restructuring of the international financial system is examined. In the second section, role of the G-20 summits and international politics on the restructuring process is analyzed. In the third section, restructuring of the international financial institutions' governance is evaluated.

THE GLOBAL CRISIS AND THE INTERNATIONAL FINANCIAL SYSTEM

The biggest financial crisis since the Great Depression, which originated in the US and spread quickly to other countries, clearly demonstrated that the U.S. and international financial architecture has structural flaws so that this is not just a crisis in the system, this is a crisis of the system. The crisis was a challenge; the three of the most seemingly effective international institutions (the World Trade Organization, the IMF, and the international network of regulatory agencies) failed to meet. (Zaring, 2010: 475)

Global financial crisis demonstrated that nations are still the most important actors of the international financial system. It was also clearly seen that G-7 countries cannot decide on global economic issues themselves; representation and participation of emerging countries in the decision-taking mechanisms is needed. The crisis moved the center of gravity of the international economy towards emerging countries and the G-20 emerged as the legitimate platform to restructure the international financial architecture in terms of representation, international reserves and economic power. (Bradford, 2009:38) The G-20 countries together represent over 85 percent of world GDP, 80 percent of world trade, and two-thirds of the world's population. (Beeson and Bell, 2009:68) In this connection, creation of the G-20 increases the possibility of effective policy coordination and increase the credibility and legitimacy. (Germain, 2001)

The global crisis also showed that the international financial system has expanded greatly in size, reach and liquidity and gained the potential to drag not only the developing but also the developed countries into crisis. (Wade, 2008) Even if the international institutional framework for international finance is seen as the most sophisticated of the global governance regimes (Kerwer, 2005), the crisis showed that the systemic complexities of the 21st century networks should be better understood. (Schweitzer et al., 2009) The international financial system has become so integrated and the global economy so interdependent that policy coordination at the global level is needed and to do that, international institutions must be reformed in a way that gives greater voice and representation to the emerging countries. (Pisani-Ferry and Santos, 2009:12)

According to the IMF study (2009), synchronized recessions after financial crises tend to be deeper and last longer, which makes coordinated action and cooperation at the global level more urgent. As a result, the global governance concept, which is related to the emerging urgent global problems that cannot be solved by the national instruments of decision making, (Potucek, 2009: 12) is pronounced more and more frequently. It is argued that a comprehensive supervisory and regulatory regime that monitors and assess systemic financial risks stemming from the poor corporate governance, risk-management and management of liquidity risk of all the banks and the shadow financial system should be constructed. Absence of binding international standards to enhance financial transparency and accountability (Abdelal, 2007) is seen as one of the most important factors that intensified the global financial crisis.

It is argued that financial deregulation reforms, which opened up countries to the free flow of capital in and out of them, removed the regulations on financial institutions operating within countries, and removed the political controls from the Central Bank, made the financial sectors of nations parts of the international financial sector and increased countries' vulnerabilities. (Beder, 2009: 18) Nonetheless, there are also views that worldwide drive to regulation is misconceived. (Connolly, 2009:422)

Even if the need for cooperation at the global level was clearly recognized, it was also seen that states are not ready for a global financial regulator and a central bank. In spite of the fact that a supranational regulator and international lender of last resort may be functional to stabilize international financial markets, it is also

accepted that it is not easy to establish these institutions under current circumstances. So, until these kinds of supranational institutions are established, intensifying national regulations, enhancing international cooperation and redesigning the regulatory framework at the national and international levels are seen as short and middle-term options. It is expected that IMF will continue to play the role of “quasi-lender of last resort”.

THE G-20 SUMMITS, INTERNATIONAL POLITICS AND THE RESTRUCTURING PROCESS

As the global crisis deepened in the first quarter of 2009, need for cooperation at the global level was clearly understood. Nevertheless, developed and developing countries, with different points of view about the restructuring process, tried to shape the process according to their interests. The restructuring process turned into a political dispute among the developed and developing countries.

G-20 meetings symbolized the changing balance of power in the international economy. (Bradford, 2009:38) Prior to the crisis, the G-7 summits were platforms where the most important decisions about the international economic order were taken. Nonetheless, the global financial crisis necessitated more participation and representation of the developing countries. G-20 reflected the structural shifts in the system whereby power balances are being altered by the rise of emerging countries, particularly the BRIC countries (Brazil, Russia, India and China). (Armijo, 2007) “The BRIC countries” concept gained a political meaning rather than a just economic term. Putin had mentioned this in his Munich speech in 2007: “There is no reason to doubt that the economic potential of the new centers of global economic growth (the BRICs) will inevitably be converted into political influence and will strengthen multipolarity” (Lukyanov, 2009:130)

G-20 is seen as an important step towards a reformed global economic governance regime. (Schmidt et al., 2009) Nonetheless, it is also argued that since G-20 is merely a gathering of national leaders, not a formally constituted international organization and lacks the capacity to enforce its decisions, it does not result in any fundamental changes to the system. (Buckley, 2010) G-20 is likened to a non executive board of directors for the global system of governance than an executive management committee. (Garrett, 2010: 38) G-20 declarations are also criticized on the basis that no preconditions are defined for more cooperation and no underlying principles are defined. (Graaf and Williams, 2009: 414)

During the initial phases of the crisis, in November 2008, the G-20 countries convened with the agenda of taking measures to prevent the deepening of the crisis. G-20 countries convened again in April 2009 and took important decisions. Finally, at the G-20 meeting in September 2009, the leaders declared that the G-20 became the main platform for international economic cooperation.

G-20 meeting in April 2009 was successful at some extent. Nonetheless, the meeting failed to reform the international financial system because of clash of interests among the Anglo-Saxons, the Europeans and the emerging countries. It is argued that the US blocked the reform of the international financial system and pushed for global fiscal stimulus. The Europeans resisted fiscal stimulus and reform of the IMF and the World Bank since their voting power would be cut to create space for the emerging countries. They shifted the focus from these issues to the regulatory reforms. Meanwhile, emerging countries, particularly BRIC countries stressed the importance of the reform of the international financial and monetary system.

At the end of the summit, it was declared that IMF’s financial resources were increased threefold to \$750 billion, which was seen useful to help stabilize financial sector in troubled regions of the world. (Yunus, 2009:7) Nonetheless, most of this amount consisted of commitments. Only Japan signed a \$100 billion bilateral borrowing agreement with the IMF. The E.U. and the U.S. committed \$100 billion. China pledged to buy \$50 billion IMF bonds denominated in SDRs. Russia, Brazil, South Korea and India also pledged to buy \$10 billion IMF bonds. Canada and Switzerland also committed \$10 billion dollar. Adding commitments of other countries, the total amount amounted to 423 billion dollars by early September. The European Union increased its commitments by 78 billion dollars in September 2009 and in this way the \$500 billion target could be reached before the G-20 summit at the end of the September.

The G-20 meeting in April 2009 was not successful especially from developing countries’ perspectives in terms of reform of the international financial system. Russia voiced its concerns with regards to the problems caused by the dominance of dollar and China, which is expected to provide more resources to the IMF, proposed the reform of the international financial system with specific suggestions; nonetheless G-7 countries simply ignored. (Stewart, 2009) It is argued China pledged to buy only \$50 billion IMF bond rather

than giving long-term loan to give a message that it wants faster reforms in decision-making mechanisms of the IMF. (The Economist, 2009: 79) Other BRIC countries also refused to participate in the New Arrangements to Borrow (NAB) or special arrangements, rather offered to purchase IMF bonds. (Woods, 2010: 59)

Even if fundamental reforms such as the rearrangement the quota system was postponed, some substantial changes were made such as trebling of IMF's financial resources to \$750 billion, a \$250 billion dollar increase in the Special Drawing Rights (SDR), a new facility called Flexible Credit Line (FCL), a change of conditionality that would let borrower countries to keep up social spending during crises, a doubling of the limit on the total amount each member country can borrow, softening of the core conditionality, better surveillance of risks created by individual countries to the international financial system, a change in the selection of managing directors towards merit-based process. (Weissman, 2009:11) Grabel (2010: 12) argues that G-20 representatives gave the IMF pride of place in global efforts to respond to the crisis.

The G-20 countries also agreed to reshape regulatory systems, to extend regulation and oversight to all systemically important financial institutions, instruments and markets. They decided to strengthen international cooperation by establishing the remaining supervisory colleges for significant cross-border firms by June 2009, building in the 28 already in place; by implementing the FSF principles for cross-border crisis management immediately.

Members of the IMF met at the annual IMF meeting in the last week of April and discussed how they will raise the funds that were agreed upon at the G-20 summit. They also discussed the reform of the decision-making mechanisms of the IMF and the World Bank. Developing countries were not convinced that IMF's more powerful countries were serious about ceding any control. They warned that they would not provide financial resources without having more voice in the decision-making process. (Prosser, 2009)

Alexei Kudrin, Russia's finance minister, said at the meeting that, "we already meet a cool attitude and even resistance to reform the IMF. The leading countries are not in a hurry... this was the main discussion, the nerve of the meeting." Brazilian finance minister stated that contributions made by the developing countries would be provisional, meaning that they may be withdrawn if the IMF's decision-making process is not reformed.

From the initial phases of the global crisis, BRIC countries tried to increase their influence in the restructuring process. In March 2009, before the G-20 summit, BRIC countries came together and issued their first communiqué. In this communiqué, they called attention to the reform of the international financial institutions. Taking into consideration the growing weights of the emerging countries in the global economy, they wanted reconsideration of the quotas and voting rights of the IMF and the World Bank. They wanted the reform of the international monetary system. BRIC countries came together again in June and issued another communiqué. Similar to their March communiqué, they called for the reform of the international financial and monetary system. They called for a more diversified monetary system. They also called for a multipolar international system based on international law, equality, mutual respect, cooperation, coordinated action and collective decision-making principles. On June 29, 2009, the United Nations ratified an action plan about the international financial system, according to which the member countries demanded an immediate reform of the Bretton Woods institutions.

BRIC countries continued to criticize the international financial and monetary architecture at other platforms. At the G-8 summit held in July, China repeated its demand for a rational and more diversified international monetary system. Russia also argued that an alternative global reserve currency should be included in the agenda of the G-8 summit.

The United Nations Trade and Development Conference supported BRIC countries' arguments about the international financial and monetary system with a report in September. (UNCTAD, 2009:10-13) According to arguments in report, dollar should be replaced with another international reserve currency issued by an international organization. It was argued that restructuring of the international financial system in this way would eliminate the problem of instability creating capital movements and would decrease speculation. The report specifically emphasized the SDR. It was argued that the SDRs could function as supranational reserve currency. Meanwhile, some scholars argue that since the purchasing power of the SDRs is uncertain and since their liquidity is relatively insufficient, they are not suitable for countries with balance of payments surplus. (McKinnon, 2009:7)

Finance ministers of the BRIC countries came together in September before the G-20 summit, issued a declaration and reiterated their demands about the reform of the international financial and monetary system. They stated that the most serious problem that damages the legitimacy of the IMF and the World Bank is unjust distribution of quotas and voting rights. They demanded a seven percent quota shift from developed countries to developing countries in the IMF and a six percent voting rights shift in the World Bank. They called for a more stable and predictable monetary system. They also demanded a transparent selection process for the IMF and World Bank Presidents based on the merit, not on the nationality.

G-20 summit in September has been a summit, which concrete results emerged from ongoing negotiations and discussions among the developing and developed countries in different platforms since the beginning of the global crisis. The leaders declared that the G-20 has become the main platform of international economic cooperation.

Developing countries', particularly BRIC countries' demands for the reform of the international monetary and financial system were met at some extent. At the G-20 summit, a shift of five percent quota shares from overrepresented developed countries to underrepresented developing countries in the IMF and three percent voting rights shift in the World Bank were agreed upon.

Other important decisions about the international financial system were also taken. The G-20 leaders agreed to launch framework for strong, sustainable, and balanced growth. They agreed to address critical issues such as the size and composition of the Executive Board and ways of enhancing its effectiveness, the Fund Governors' involvement in the strategic oversight of the IMF, enhancing staff diversity and making the appointments of the heads and senior leadership of all international institutions through a transparent, and merit-based process.

The G-20 also agreed to reconsider the regulation system for banks and other financial institutions in a way that prevents excesses that lead to financial crisis, to improve international standards for bank capital, to make necessary arrangements about compensation to end practices that lead to excessive risk-taking, to make the over-the-counter (OTC) derivatives more transparent, to regulate and supervise the hedge funds and credit rating agencies, and to make the regulatory and supervisory arrangements for the systematically important international financial institutions.

At the IMF-World Bank Annual Meetings held in Istanbul in October 2009, decisions that support and complement the decisions taken at the G-20 summit were taken. These "Istanbul Decisions" include:

1. Enlarging the mandate of the IMF in a way that includes all macroeconomic and financial policies, which affect the global stability.
2. Providing insurance to more countries as the lender of last resort by using Flexible Credit Line.
3. To expand the multilateral surveillance authority of the IMF.
4. To shift a quota share of at least five percent from developed countries to developing countries.

RESTRUCTURING THE GOVERNANCE OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

Confidence to the international financial system diminished significantly as a result of the global financial crisis. It is argued that transparency and public accountability of international financial institutions and new complex financial instruments should be augmented to reestablish confidence to the financial system. (Porter, 2009:8)

Since the world is not ready for a brand-new global financial regulator or a central bank after the global crisis, it is estimated that the global financial crisis will possibly lead to the restructuring of the international financial system in a way that enhances IMF's role in the global economy. The decision to increase IMF's financial resources at the G-20 meeting in April 2009 reflects increasing importance of the IMF.

IMF's role was being discussed extensively before the crisis. The Fund was searching for a way to stay in business. (Weissman, 2009:11) The Fund had cut staff by about 13 percent but still faced a \$300 million deficit over the next four years in 2008. (Griesgraber, 2009: 179) There were few countries that had signed stand-by agreements with the IMF in 2000s and it was argued that the Fund could not even find money for its day-to-day activities. Bank of England Governor Mervyn King (2006) had said this: "The Fund's remit is unclear. Its lending activities have waned and its role in the international monetary system is obscure."

The global crisis changed international economic prospect for the IMF fundamentally. It rescued the institution from its increasing irrelevance. (Chorev and Babb, 2009) Nonetheless, to be a legitimate and effective institution, it is argued that reforms must be implemented in four main areas including governance, economic philosophy, IMF staff competencies and substantial increase in financing. (Griesgraber, 2009: 180-183)

The other institution that will probably gain importance is the Financial Stability Forum. The FSF was transformed at the G-20 meeting in April 2009 into the Financial Stability Board. The G20 placed the FSB at the centre of intensified regulatory cooperation. (Arner and Taylor, 2009: 489) It includes all G20 countries, FSF members, Spain and the European Commission. The FSB will collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them. Financial Stability Board was given important roles with regards to the international financial system such as:

- 1) Assessing the weak points of the financial system and identifying the steps to address them. Facilitating and enhancing co-ordination among the authorities responsible for the financial stability.
- 2) Providing the regulatory policy recommendations about the market developments and their implications.
- 3) Monitoring and assessing the practice of regulatory standards. Monitoring the policy development work of International Standard Setting Bodies and ensuring that their work is coordinated and focused on priorities and addressing gaps.
- 4) Promoting contingency planning for cross-border systemic crisis management. Conducting Early Warning Exercises in collaboration with IMF to identify the buildup of macroeconomic and financial risks.
- 5) Establishing a supervisory college to monitor the systematically important international financial firms. Overseeing all systemically important financial institutions, instruments and markets including the hedge funds, which will have to register and report their strategy, debt and risk levels.
- 6) Establishing a clearing house, through which credit derivatives, whose value is derived from an underlying asset, will be cleared.

It is expected that FSB will have an important role in the restructuring process of the international financial system and will function like a global financial regulator.

Decision-making mechanisms of the international financial institutions such as IMF and World Bank are among the most critical and controversial issues of the restructuring process. Developing countries demand larger quota shares and voting rights arguing that they are under-represented.

The U.S. has 17,09 percent quota share in the IMF. This gives the US the veto power over crucial decisions since a majority of 85 percent is required. The European Union countries have 32,09 percent quota share while China has 3,72 percent, Russia 2,73 percent, India 1,91 percent and Brazil 1,4 percent. According to experts, the recalculating quota is very slow because of political dynamics. It took very long negotiations for China to be awarded a "special" quota increase when it reabsorbed Hong Kong. In 2008, Board of Governors agreed to a process of change of quotas in small magnitudes. According to the agreement, US's quotas would eventually reduce to 16,73 percent, while China's quota would increase to 3,81, India's to 2,34 and Russia's to 2,39.

Especially in recent decades, there has been a shift in the international economic balance of power towards east. This shift was not reflected in the quota shares and the voting rights of the IMF and the World Bank, which limited China's contribution to the new financial resources for the IMF. It is argued that China has pledged to buy only \$50 billion IMF bonds since its calls for greater representation were not met. It is also argued that China preferred to buy IMF bonds rather than providing long-term financial sources to IMF to show that it wants acceleration of the restructuring process of decision-taking mechanisms of the IMF and the World Bank. (The Economist, 2009: 79) In this connection, an expanded role for China in multilateral financial institutions is seen helpful for China's cooperation with regards to the global financial crisis. (Prasad, 2009:233)

IMF's functions were determined in the Bretton Woods Articles of Agreement in 1944 and they were in harmony with the post-war conditions and with the preferences of the politically strongest countries, the US and the UK. (Helleiner, 2009b: 191) Its functions started to change in 1970s with the transformation of the international financial system. The US suspended the convertibility of the dollar to gold and the Bretton Woods system collapsed. Technological developments, increasing mobility of capital, financial liberalization and deregulation gave the capital movements the potential to drag countries into financial instabilities and crises. IMF's main function transformed from providing balance of payments support to liquidity crisis

management. IMF signed agreements with many countries most of which were not successful. It was particularly criticized for its policies after the Asian crises in 1997-98. In the first years of the 21st century, IMF's role seemed to diminish as less and less countries signed agreements with IMF.

The global financial crisis changed this picture totally. IMF became almost the most important international institution of the international economy. IMF's financial resources were increased to \$750 billion. New facilities such as Short-term Liquidity Facility (SLF), which provide more flexibility, were created. With Short-Term Liquidity Facility (SLF), IMF will be able to channel funds quickly to eligible emerging markets with sound policies and sustainable debt burdens. It is expected that as IMF's effectiveness and influence in the international economy increase, reform of its decision-taking mechanism will be a more important issue.

Appointment process of the IMF and World Bank Presidents is criticized. It is argued that the IMF and World Bank Presidents are selected according to an informal agreement among the U.S. and the West European countries and as a consequence, all of the ten IMF Presidents since the establishment of both institutions were West European nationals while all of the eleven World Bank Presidents were U.S. nationals. (Cogan, 2009: 209)

A critical issue with regards to the governance of IMF is the degree of control of the staff and management by the Executive Board. There may sometimes be conflicts of interest between the staff focusing on global public goods and the Executive Board that is controlled politically by member states, particularly ones with the larger quotas. It is argued that if there is no change in the structure of the executive board, the Fund's effectiveness in providing a high-level forum for international economic cooperation will decrease. (Thimann, Just and Ritter, 2009: 188)

CONCLUSION

The global financial crisis demonstrated that the international financial architecture has structural flaws. From the beginning of the crisis, debates and negotiations about restructuring of the international financial system and the governance of the international financial institutions continued in different platforms. Since the international financial system is a complex system which consists of various institutions, rules and regulations; it is expected that the restructuring process will be a slow process.

Apart from the difficulties of the restructuring process stemming from economic factors and the complexity of the international financial system, there are also political dynamics that affect, slow down and harden the process. Developing and developed countries have different perspectives and different political concerns about the governance structures of international financial institutions. Developing countries want the reform of the decision-making mechanisms of the IMF and World Bank in a way that increases the quota shares and voting rights of the developing countries.

Negotiations and debates among the developed countries, particularly the G-7 countries and the developing countries, particularly the BRIC countries continued in different platforms since the beginning of the global financial crisis. Political agendas shaped the restructuring process as much as the economic concerns. The result was that along with the regulatory reforms, reforms about the decision-making process of the IMF and the World Bank were made in a way that gives more voice to the developing countries in the international financial institutions.

It is expected that developed countries will try to slow down the restructuring process since their control on the decision-making processes of the IMF and the World Bank provides them various economic and political advantages. Nonetheless, since they also recognize that international economic balance of power has changed in recent decades, they may accept some transfer of control. Decisions taken at the G-20 summit in September 2009, according to which IMF quota shares and World Bank voting rights will be transferred from developed countries to developing countries, can be seen as a first step towards greater role of developing countries in the international financial system.

Meanwhile, the developing countries, particularly the BRIC countries, will probably press for faster reforms in the decision-taking mechanisms of the IMF and the World Bank. They will try to increase the amount of IMF quota shares and the World Bank voting rights that will be transferred to them. It is anticipated that the restructuring process will proceed slowly because of the complex relations between the international financial system and the international politics.

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A STRATEGIC MANAGEMENT APPROACH DURING THE TIME PERIOD OF COPING WITH GLOBAL CRISIS: RIGHTSIZING

Mehmet Tikici
Ali Aksoy
Rabia Ece Omay
Neslihan Derin
Şeyda Nur Seçkin

Inonu University, Turkey

ABSTRACT

The strategic management for human resources plays an important role on the precaution and exceeding of the crisis. Apart from this, with the help of successful crisis managements, the crisis facilitates the exposition of the organization's strong and weak points and the reconstruction of the organization itself. Many large organizations have highly developed crisis management plans and teams that are ready and rehearsed for crises. On the other hand, majority of the small businesses believe that crisis preparations are less important. The latest global crisis, unlike its progress in the world, affected small-scale and relatively weak firms instead of banking sector in Turkey (Alptekin, 2009:5). As a natural consequence of it, SMEs operating in Malatya were also affected negatively and faced with losses. However, whether SMEs operating in Malatya tried to find the right, optimal size and benefited from rightsizing with a systematic strategic human resource management approach during the global recession period is unknown. For this reason, it is aimed to investigate the rightsizing skills of SMEs operating in Malatya.

Keywords: crisis, rightsizing, SMEs

INTRODUCTION

Globalization, knowledge-based economy, fierce competition and rapidly changing technologies increased the importance of the human resources significantly. In today's highly competitive work environment, it is vital for firms to approach human resources as a strategic success component and competition superiority factor. A broader and strategic approach that is beyond classical human resources management is necessary for success (Niehaus, 1995:55). This broader and strategic approach to human resources refers to the strategic role which is integrated to the organization, spreading its vision, mission and all goals to the all units of the company (Wright, 1992:297). Rather than an activity relegated to human resource staff (Taylor, 1996:970), it is necessary for firms to consider human resources as a strategic source of value which creates a competitive advantage in the market. In today's knowledge-based economy, the success of a company depends on accepting the human resource functions as a strategic partner in the formulation of the company's strategies as well as in implementation of those strategies (Tyson, 2001:80).

Competition, lost market share and lowered profit margins are the realities of today's business environment. To survive and outperform in existing conditions, firms need to benefit from their human resources with a systematic strategic approach (Allen, 1997:34-42). As one of the systematic strategic approaches, rightsizing is rethinking and reorganizing to find the optimum size with respect to the existing both internal and external conditions by eliminating unnecessary jobs and improving core activities (Walker, 2003:1). Unlike downsizing, it is a broader strategic approach oriented towards reshaping the organization and involves processes which take both human and financial resources into account at the same time in a frame of strategic plan. In this period, functions may be eliminated, labor force may be reduced or employees may be positioned horizontally in different areas.

The need of reorganization of human resources becomes apparent by the crisis. The crisis facilitates the exposition of the organization's strong and weak points and the reconstruction of the organization itself revealing a reorganization opportunity for the strategic management of human resources in the organizations. The most affected component from the crisis process is human resources. After all, the most powerful weapon for to fight crisis is also human resources.

Many large organizations have highly developed crisis management plans and teams that are ready and rehearsed for crises. On the other hand, majority of the small businesses believe that crisis preparations are less important. Many small organizations have the mentality that 'crises don't happen in our industry/field' or 'we have a well-managed business and could manage our way through a crisis without a plan'. They assume that crisis events only happen to other organizations or that they are somehow protected from destructive effects of crises (Bozkurt, 2009:64-65)

Today, SMEs account for %95 of total number of firms in global economy providing %66 of employment. In Turkey, %99 of the firms is SMEs constituting %46 of aggregate employment (Spillan and Hough, 2003:398-407). Regarding to the importance of SMEs as stimulators of employment, investment and aggregate production in one economy and the fact of their inadequacy in crisis planning; SMEs are selected to be studied on. SMEs operating in Malatya are dynamic units of Malatya stimulating city economy considerably. To illustrate, in the last five months of '09 Malatya came first in Eastern Anatolia accounting for 25 percent of the total number of SMEs getting investment incentive certificate in the region. Therefore, the field of the study is selected as those SMEs and the survey is conducted on them.

The latest global crisis, unlike its progress in the world, affected small-scale and relatively weak firms instead of banking sector in Turkey (Alptekin, 2009:5). As a natural consequence of it, SMEs operating in Malatya were also affected negatively and faced with losses. However, whether SMEs operating in Malatya tried to find the right, optimal size and benefited from rightsizing with a systematic strategic human resource management approach the global recession period is unknown. For this reason, the aim of the study is determined as to investigate the rightsizing skills of SMEs operating in Malatya.

LITERATURE REVIEW

Crisis Management

One of the most significant characteristics of modern times is the existence of crises (Israel, 2007:807-823). Crises are unexpected events in an organization's life which represents a significant threat to its high priority values and demands a time-pressured response. Crises cause firms to face with risks, difficulties, uncertainties and chaotic situations and should be handled seriously. Since crises differentiate in terms of their scope and impacts crises are one of the difficult concepts to be identified in management science (Demirci, 2009:89). Generally speaking, crises can be defined as triggering events which are so significant that they challenge the existing structure, routine operations or survival of the organization (Phelps, 1986:5). Crisis is a chain of sudden and unexpected happenings that is difficult to get under control (Caponigra, 2000:5). Moreover, crises can be described as sudden challenges which test the organization's ability to cope posing threats to the viability of organizations (Kuklan, 1988:21).

When written in Chinese, the word crisis is composed of two characters. One represents danger and the other represents opportunity. Crisis that threatens the existence of organizations also creates unexpected opportunities at the same time. An effective crisis management can convert that opportunities to success stories. With the help of successful managements, the crisis facilitates the exposition of the organization's strong and weak points and the reconstruction of the organization itself (Anderson, 2006:1290-1297). Since crises, regardless of its origin, are one of the realities in today's business environment coming suddenly with destructive effects on firms successful crisis management becomes more important for firms to survive and outperform in uncertain and dynamic market conditions (Bozkurt, 2009:78).

Crisis management can be defined as the management of processes such as taking first signs of crisis, preparations and preventions, removing the loss, improving the organizational structure, learning and determining the affirmative sides of crisis (Wojcik, 260). It is a dynamic and continuous process composed of both reactive and proactive activities and requires identifying the signs, taking measures and developing

responses to crisis (Öcal, 2006:1498-1503). According to Finsk, crisis management is the art of removing risk and uncertainty to gain more control on external factors (Wang, Hutchins and Garavan, 2009:22-53).

The current literature on crisis management focuses on general prescriptive models providing general guidelines for coping with depression periods. There are also descriptive models which categorize business crises. For example, Lerbinger (1997) categorizes crises according to the distinction between external and internal factors and lists different types of crisis. Another stream of research focuses on historical perspective (Fink, 1986:15).

According to Shrivastava, there are four points in crisis management to be taken into account; causes, measures, solutions and results. Causes are the reasons leading to crisis and measures refer to the sum of proactive actions aiming to minimize the negative sides of crisis. Solutions indicate reactive activities which are put into force by management during the time of crisis and finally results are temporary or permanent impacts left from crisis (Kuklan, 1988:21). According to Pearson and Clair, there are four steps in crisis management. These are identifying the early signals of crisis, preparing the emergency plan, implementing the strategies and finally operations for recovery after crisis (Liua, Chang and Zhao, 2009:232-239).

In crisis management process, planning step is important. The old adage states, 'if you fail to plan, you plan to fail'. Clearly, planning is a primary key to success. Not only businesses should plan for positive events, such as new products or factory expansions but they also must plan for adversity situations like crises (Anderson, 2006:1290-1297). Majority of large organizations have highly developed crisis management plans and teams that are ready for crises. On the other hand, small businesses, generally defined as those having fewer than 500 employees, believe that crisis planning is less important. Many small organizations have the mentality that 'crises don't happen in our industry/field' or 'we have a well-managed business and could manage our way through a crisis without a plan'. They assume that crisis events only happen to other organizations or that they are somehow protected from crisis (Spillan and Hough, 2003:398-407). SMEs, as dynamic units of a national economy, contribute to both economic and social systems respectably and are the driving forces behind the strong, dynamic economies. Becoming more important in recent years, SMEs stimulate the market contributing to employment, investment and aggregate production in one economy. For this reason, crisis management is more important especially for SMEs most of which are generally managed by its owners unlike the big, financially strong firms in which generally crisis management processes are handled in separate departments or public relation agencies

Effective crisis management means that top management must manage the impact of the crisis on various sections of the organization, such as information systems, operations and human resources. With respect to human resources, management must be mindful that its employees may experience considerable personal loss in such times and that there may be a decline in their performance. Moreover, employees may be working in conditions of greater levels of stress. Stress appearing during depression periods increases when informational certainty is low, the size and scale of the events seems overwhelming, and executives, managers and even team leaders show little support during the time period of crisis (Wang, Hutchins and Garavan, 2009:22-53)

Firms are integrated not only with their subsystems but also with their environment. Crises, as one of the important issues occurred in the external environment cause firms to face with risks, difficulties, uncertainties and chaotic situations and should be handled seriously. Firms which are lack of crisis management skills and incompetent in reacting properly experience the destructive effects of crises and the existence of firms goes under risk (Sevim, 2009:147). Firms generally go into crisis since they fail to make preparations before crisis and develop appropriate strategies in different managerial levels. To cope with crises, the success of a firm depends on developing a long-run point of view, identifying signs of crisis before it occurs, taking appropriate measures and putting emergency plans into action.

Rightsizing

During the decades of the 1950s, 1960s, and 1970s, corporations expanded by providing new jobs and opportunities. With the beginning of the 1980s, conditions for growth were no longer appropriate and companies needed for a leaner workforce by cutting their staff. Because of competitive pressures around the world, firms tried to cut costs, restructure and reduce their labour force. As a result, the concept of "downsizing" became popular since then (Zeinab, 1999:175). While employee reductions were utilized mainly in response to crises prior to the mid-1980s, downsizing developed into a managerial strategy for most of the companies after mid-1980s (Gandolfi, 2009:3-14). One of the reasons for the continuing

popularity of downsizing practice as a managerial strategy was the accelerating impact of information and communication technology all over the world (Whymark, 1998:158-162)

The first few years of the 1990s were years of trying to find the best way to survive. Words like downsizing, rightsizing, restructuring, management by objectives, diversification, zero-based budgeting, matrix management, re-engineering, and realignment became popular presenting various approaches. They all meant, to some degree, the same thing: getting more done with fewer people. Downsizing came first meaning reducing the workforce without really changing the way the work was done and without changing the corporate infrastructure. Rightsizing was the next approach. It consisted of trying to find the "right" number of people to do only the necessary work aiming to stop doing "non-value added work" (Skehan and Kleiner, 1996:7-12).

Rightsizing is regularly used as substitute for downsizing in literature. Downsizing can always be justified to improve efficiency, but only if it is really rightsizing to prepare a strong base for renewed growth (Thompson, 1998:274). While downsizing is the systematic reduction of a workforce; rightsizing is a different, broader strategic approach aiming to find the optimal size (Appelbaum, Everard and Hung, 1999:535-552). Rightsizing also can suggest growing a business, either to correct a previous downsizing effort or to accommodate growing business (Jusko, 2010:18). It is an integrated, internally consistent and externally legitimated configuration of organizational processes, products, employees and based on a shared vision of the future of the organization. A clearly defined mission and strategy is supported by management and also understood by members of the firm. The strategic dimension of rightsizing requires a continuous analysis of the organization's mission and long-term strategies, actions required to implement them and the skills and people necessary to perform those processes. Companies can be revitalized and individuals can be renewed if the emphasis is rightsizing rather than just workforce reduction (Burke and Nelson, 1997:325-334). In other words, rightsizing is more comprehensive than the concept of downsizing in that it is a proactive, continuous process of configuring the organization to function effectively in the present and be prepared to do so in the future. It emphasizes a proactive, strategically driven process of continuous attention to the "right" size (Hitt, Keats, Harback and Nixon, 1994:19-21).

When the decision to right size is made also a continuous process of reevaluating the company's human resources in relation to business strategies and developments in the external environment is needed (Morrall, 1998:81). The first key to successful rightsizing is to focus on the company's long term strategies and how any reorganization will affect the company's horizon (Elmuti and Kathawala, 1993:10). Rather than just headcount reductions, companies should reevaluate organizational priorities, review core competencies, look to possible organizational redesign, and operate under a "rightsizing". The organization's long-term strategic needs should be taken into account and be balanced by the company's short-term operational needs (Hickok, 1999:9).

The strategic management for human resources plays an important role on the precaution and exceeding of the crisis. Apart from this, with the help of successful managements, the crisis facilitates the exposition of the organization's strong and weak points and the reconstruction of the organization itself. This dimension puts forward a reorganization opportunity for the strategic management of human resources in the organizations by the crisis. Corporations, generally speaking, have a tendency to be narrow in scope when considering reorganization. As a response to crisis, companies immediately focus on cutting costs and try to maintain or achieve specific levels of profitability. One of the first places companies look to make cuts is people-related expenses. Reducing headcount seems like an easy and obvious way to save on costs. During the time period of strategic management of human resources (Kenny, 1999:29), downsizing may cut labor costs in the short run but possibly erode both employee and eventually customer loyalty in the long run (Wilkinson, 2005:1079-1088).

Firms have always encountered workforce fluctuations, particularly as reactive measures to economic crises, such as responses to recessions (Gandolfi, 2008:3-14). Especially, SMEs usually adopt retrenchment practices during economic downturns (Chu and Siu, 2001:845-858). Typically, they respond to decline by cutting back their scale of operations, which usually means that the size of the workforce is reduced. Downsizing is viewed as an organizational intervention aimed at improving organizational performance by reducing the workforce (Pranjall and Kumar, 2009:11). In workforce reduction, the critical point is that employees who can be easily rehired and who are not involved in activities at the core of the firm's competitive advantage should be cut (Chu and Siu, 2001:845-858). However, most of the time, wrong decisions are taken in tailspin and generally key talents that affect an organization's ability to success its business goals are lost.

The current business environment of rapid change and innovation forces organizations to evaluate how human resources (HR) contribute to their effectiveness. In today's knowledge-based economy, intellectual capital is the main factor leading to superior firm performance (Zatzick and Iverson, 2006:999-1015). With the increased global competition and economic fluctuations, the key factor to survive and outperform in the market is "high-value" instead of "high-volume" (Lewin and Johnston, 1996-93-111). As a consequence of prevailing current economic conditions, today companies are confronted with drops in profits, cost restrictions and fierce competition and those become the basic realities of business life. In this context, to survive and compete better in the market requires strategic thinking, acting with a proactive manner and benefiting from human resources effectively (Zeffae & Mayo, 1994:5). In today's knowledge economy, it is necessary for firms to focus on adapting and recognizing patterns rather than just trying to achieve a "optimal performance" (Frey, 2001:38-54). With this reality, to adapt and response to economic fluctuations, structural changes and uncertainty in existing conditions is possible only by high capability of organizational adaptation and high workforce participation requiring a systematic strategic approach. As one of the systematic strategic approaches, rightsizing makes organizations leaner and more competitive in a difficult economy so that they can reap stronger rewards and be in an advantageous position after the recession ends. Rather than simply cutting costs to maintain a specific level of profitability with a narrow point of view, a broader approach and more fundamental strategy; rightsizing should be considered. It is a holistic and proactive approach dealing with corporate restructuring with the goal of both reducing costs and aiming to improve efficiency and effectiveness at the same time (Ataman, 2001:366). By creating a results-focused talent plan, organizations sharpen their employee skills for greater strategic impact (Zeffae & Mayo, 1995:6-18). Putting the right people in the right roles at the right time enables companies to improve the quality and effectiveness of their workforce that is a major competitive differentiator. After all, a revitalized organization with a strategic workforce is better able to execute on business strategy (Türk, 2006:132).

METHOD

Many large organizations have highly developed crisis management plans and teams that are ready and rehearsed for crises. On the other hand, majority of the small businesses believe that crisis planning is less important. Many small organizations have the mentality that 'crises don't happen in our industry/field' or 'we have a well-managed business and could manage our way through a crisis without a plan'. They assume that crisis events only happen to other organizations or that they are somehow protected from destructive effects of crises (Bozkurt, 2009:64-65)

Today, SMEs account for %95 of total number of firms in global economy providing %66 of employment. In Turkey, %99 of the firms is SMEs constituting %46 of aggregate employment (Spillan and Hough, 2003:398-407). Regarding to the importance of SMEs as stimulators of employment, investment and aggregate production in one economy and the fact of their incompetency in crisis planning SMEs are selected to be studied. Since in the last five months of '09 Malatya comes first in Eastern Anatolia accounting for 25 percent of the total number of SMEs getting investment incentive certificate in the region the study is conducted in Malatya.

This study aims to determine whether "SMEs operating in Malatya, which are expected to face big losses during recent crisis, benefited from rightsizing recent global crisis by rethinking and reorganizing their human and financial resources at the same time". The problem statement is determined as "Did SMEs operating in Malatya benefit from rightsizing successfully during recent global crisis?" Accordingly, the hypothesis is determined as "SMEs operating in Malatya did not benefit from rightsizing during recent global crisis by rethinking and reorganizing their human and financial resources at the same time".

The population of the study consists of 750 SMEs. Because of cost issues and conducting the survey in the population include higher probabilities of making mistakes randomly sampling method is selected with confidence level of 0.95, tolerance limit of ± 0.04 and the sample size of 100 (Çingi, 1994:326).

Data collection is performed through questionnaire method applied to managers with face to face interviews. Before survey, pilot study is conducted to realize the validity and reliability of the study. The questionnaire form consists of 10 questions. Confidence analysis is implemented and confidence coefficients are calculated to achieve consistency of questions with each other and homology in measurement. For this reason, it is benefited from Cronbach Alfa coefficient (Özdamar, 2002: 662-663) which has a higher statistical validity.

In this scale, confidence coefficient is found as $\alpha = 0.698$. It can be said that the scale is reliable. Data evaluation is conducted through frequency analysis, arithmetical mean, standard deviation and finally spearman correlation.

APPLICATION AND CONCLUSION

Frequency Analysis

Data is presented in frequency tables (Table1 – Table10):

Table1. Professional Consultancy Services

	Frequency	Percent
(No)	53	53,0
(Yes)	47	47,0
Total	100	100,0

Table.1 shows that more than the half did not benefit from professional consultancy services regarding to rightsizing indicating that firms do not give adequate importance to planning for crisis.

Table2. Strategic Human Resource Management

	Frequency	Percent
1	17	17,0
2	30	30,0
3	41	41,0
4	7	7,0
5	5	5,0
Total	100	100,0

Arithmetic Mean:2.53 Standard Deviation:1.02

5=Strongly Agree 4=Agree 3=Partially Agree 2=Disagree 1=Strongly Disagree

% 53 of the managers interviewed state that one of the main reasons of problems resulted from layoffs during the period of crisis is that they do not benefit from strategic human resources management.

Table3. Decisions Regarding To Rightsizing

	Frequency	Percent
1	07	7,0
2	20	20,0
3	38	38,0
4	25	25,0
5	10	10,0
Total	100	100,0

Arithmetic Mean:3.11 Standard Deviation:1.06

%73 of the managers interviewed state that decisions regarding to rightsizing are taken in management board implying that there is a tendency towards developing appropriate strategies.

Table4. Knowledge Level of Firms About Rightsizing

	Frequency	Percent
1	12	12,0
2	24	24,0
3	31	31,0
4	28	28,0
5	5	5,0
Total	100	100,0

Arithmetic Mean:2.90 Standard Deviation:1.09

% 64 of the managers interviewed state that rightsizing is unknown. According to these results, it can be concluded that the firms in scope of the survey do not make an effort to find the optimal, “right” size by analyzing the hierarchical layers and business processes in accordance to their long term business strategies.

Table5. Dealing With Employee Values, Attitudes and Behaviors

	Frequency	Percent
1	2	2,0
2	25	25,0
3	36	36,0
4	34	34,0
5	3	3,0
Total	100	100,0

Arithmetic Mean:3.11 Standard Deviation:0.88

%73 of the managers state that employee values, attitudes and behaviors are not taken into account and evaluated.

Table6. Rightsizing vs. Downsizing

	Frequency	Percent
1	16	16,0
2	32	32,0
3	30	30,0
4	19	19,0
5	3	3,0
Total	100	100,0

Arithmetic Mean:2.61 Standard Deviation:1.06

%52 of the managers interviewed state that rightsizing concept is confused with downsizing proving that rightsizing is misunderstood by the firms in scope of the survey.

Table7. Workforce Reduction

	Frequency	Percent
1	10	10,0
2	17	17,0
3	33	33,0
4	26	26,0
5	14	14,0
Total	100	100,0

Arithmetic Mean:2.77 Standard Deviation:1.04

%73 of the managers state that workforce reduction is a primarily preferred strategy in cutting costs during the time periods of crisis. It implies that as a response to crisis, they focus on cutting costs and try to maintain or achieve specific levels of profitability by headcount reductions.

Table8. Human Resource Function

	Frequency	Percent
1	15	15,0
2	19	19,0
3	44	44,0
4	18	18,0
5	4	4,0
Total	100	100,0

Arithmetic Mean:3.17 Standard Deviation:1.17

%66 of the managers interviewed state that human resource function is not viewed as a strategic partner in the formulation of the company's strategies spreading the vision, mission and goals to the all units of the company. Regarding to the results, it can be said that human resources is not considered as a strategic source of value

Table9. Ignorance of Emotions and Reactions of Survivors Following the Cutbacks

	Frequency	Percent
1	18	18,0
2	25	25,0
3	29	29,0
4	22	22,0
5	6	6,0
Total	100	100,0

Arithmetic Mean:2.73 Standard Deviation:1.17

% 57 of the managers interviewed state that survivors of a layoff who are frequently left with as many negative emotions and reactions are not taken into consideration. It indicates that firms do little to help or deal with them.

Table10. Negative Impacts of Workforce Reduction Decisions on Employees

	Frequency	Percent
1	3	3,0
2	8	8,0
3	19	19,0
4	55	55,0
5	15	15,0
Total	100	100,0

Arithmetic Mean:3.71 Standard Deviation:0.92

%89 of the managers interviewed state that workforce reduction decisions leave negative impacts on employees.

Spearman Correlation Analysis

Table11. Spearman Correlation Analysis Results

Variables	r	P
Q4*Q6	0.404	0.000
Q4*Q7	0.252	0.011
Q4*Q8	0.280	0.005
Q4*Q9	0.345	0.000
Q4*Q10	0.258	0.010

At the significance level of 0.05, the highest value belongs to the relationship between the knowledge level of firms about rightsizing and the confusion of rightsizing concept with downsizing (r:0.404, p:0.000). Rather than just headcount reductions, companies should reevaluate organizational priorities, review core competencies, look for possible organizational redesign, and operate under a “rightsizing” (as opposed to downsizing) philosophy.

There is a strong positive linear relationship between the knowledge level of firms about rightsizing and ignorance of emotions and reactions of survivors following the cutback (r:0.345, p:0.000). Destructive impacts of workforce reductions on employees left after downsizing is defined as “downsizing syndrome” in literature. It is a significant problem that organizations need to address. That firms whose knowledge level about rightsizing is limited ignore emotions and reactions of survivors following the cutback is an expected result.

There is a positive linear relationship between the knowledge level of firms about rightsizing and classical human resource management approach (r:0.280, p:0.005). The firms in the scope of research with limited knowledge level of rightsizing naturally do not approach human resource activities with a strategic management approach.

There is also a positive linear relationship between the knowledge level of firms about rightsizing and negative impacts of workforce reduction decisions on employees (r:0.258, p:0.010). Management which has limited knowledge about rightsizing naturally do not try to take measurements for removing the negative impacts of workforce reductions on employees and finally “downsizing syndrome” on employees accelerate.

At the significance level of 0.05, there is a positive linear relationship between the knowledge level of firms about rightsizing and workforce reduction (r:0.252, p:0.011). As a response to crisis, companies immediately focus on cutting costs and try to maintain or achieve specific levels of profitability. One of the first places companies look to make cuts is people-related expenses. Reducing headcount seems like an easy and obvious way to save on costs. Rather than approaching human resources as a strategic source of the company to cope with and exceed crisis, it is viewed as a cost item that should be diminished immediately. Rather than putting the right people in the right roles at the right time, reducing expenses in narrow sense is aimed.

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MODERATING EFFECTS OF GOVERNMENT ASSISTANCE AND TURNAROUND STRATEGIES: A RESEARCH ON PRIVATE MANUFACTURING COMPANIES

Tengku Mohammad Chairal Abdullah
University of North Sumatera

Zolkafli Hussin
Northern University of Malaysia

ABSTRACT

There were many cases in corporate turnaround that had seen the influence of government assistance in influencing the process of recuperating ailing firms. However to what extent such assistance positively influenced the outcome of turnaround result are still lacking in the literature. The objective of this paper is to investigate the moderating effect of government assistance towards the improvement of business performance of turnaround companies. Analysis of logistic regression was used to investigate the effect of retrenchment and product-market refocusing strategy and the combination effect of government assistance as a moderator towards the improvement of business performance of turnaround firms. The sample consists of 135 exporter-manufacturing companies listed in the Exporter Directory of the Province of North Sumatra. The study found partial support in the moderating effects of government assistance and firm size and their influence in the relationship between strategy and successful turnaround. The study also found that Product-Market refocusing is one of the important strategies to be implemented during turnaround.

INTRODUCTION

The recent economic crisis of 2008, which swept many of major industrial nations, saw one major shift in government policies towards ailing businesses. The conviction held especially by liberal economy, which dictates that the government interference should be limited in the business world, has been changed dramatically by the act of giving financial assistance in the effort to rescue ailing businesses, especially big companies. Though as literature would later show that government assistance has been there in rescuing troubled companies, this recent recession is perhaps the only one after many decades whereby such assistance massively came in hundreds of billion dollars of rescue package. Before the economic crisis of 2008, government assistance though arguably to be quite limited, was present in many cases of turnaround companies. There were many cases in the literature of corporate turnaround that showed the government taking part in the resuscitation of ailing companies especially if the company was considered to be an important asset to the nation. However, to what extent such assistance truly helped in revitalizing turnaround companies were found to be quite scant in terms of statistical reference.

This paper focuses on the effect of government assistance as a confounding factor and its influence on turnaround strategies towards the improvement of business performance of turnaround companies. The effect of company size, which also suspected to have certain moderating effect on strategy and performance, also will be considered in the study as a control variable. This paper begins with discussions on the theoretical background underlying the selection of turnaround strategies. Then several turnaround strategies commonly adopted by troubled companies will be discussed along with cases of corporate turnaround in which government assistance were present. Several hypotheses were developed in regards to the predictor as well as moderating variable in the study, in which the theoretical framework were based upon. It will then proceed with the section on research design, in which detail explanation on sampling, data collection and analytical procedure will be discussed. The research findings, implication and limitation will be presented in the final section of the paper.

LITERATURE REVIEW

Factors contributing to successful corporate turnaround have been one of the most attracting subjects in the strategic management field. Both researchers and practitioners have strived to further the knowledge boundary of the subject every time the occasion presented itself, which usually comes during economic recession. As literature would later show that certain strategies such as retrenchment, cost reduction or downsizing were among popular strategies adopted by these companies. One of the reasons that these strategies were widely adopted by ailing business was perhaps better explained by survival-based theory. This theory argued that in order to survive, organization had to deploy strategies that should be focused on running very efficient operation and can respond rapidly to the ever-changing environment (see e.g. Lynch, 2003).

However, in reality, not all of these troubled companies which adopted this kind of strategies managed to successfully turnaround. As Slatter (1984) argued, only one out of four troubled companies managed to successfully turnaround itself. The lack of explanation provided by survival-based theory, open up possibilities for other theory of strategic management to lend itself in explaining the behavior of turnaround companies. Contingency theory as one of the most influential theories applied in strategy and organizational studies (Hofer, 1975; Schoonhoven, 1981; Tosi and Slocum, 1984) and one of which is widely adopted in strategic management (Miner, 1984), is one of the proposed candidate. The suspected moderating effect of some undefined factors which influence the outcome of turnaround effort is well within the boundary of contingency theory to explain.

Literature in the field of corporate turnaround in regards to strategy has been quite well developed for the last three to four decades. Since the earliest publication on the subject, published by Schendel & Patton (1976), literature has been well developed to argue that turnaround companies would resort to certain types of turnaround strategies, namely: debt restructuring, operating-turnaround strategy, strategic-portfolio restructuring strategy, and product-market refocusing strategy (Gilson 1989, 1990; Hofer, 1980; Tvorik, Boissoneau & Pearson, 1998; Slatter, 1984; Sudarsanam & Lai, 2001; Chowdury, 2002; Barker III & Duhaime, 1997; Chowdury & Lang, 1996; Gadies, et al., 2003; Hambrick & Schechter, 1983; O'Neill, 1986; Slatter & Lovett, 1999, and others). Although different scholar provided different technical term to these strategies, but basically they are all more or less the same. And although some scholar (see for e.g. Pandit, 2000) still question the rigorousness of such research on strategies of turnaround companies, these strategies nevertheless were being practiced generally by many ailing companies.

Aside from strategy, there are other non-strategy factors which influence performance of turnaround companies, or somewhat influence strategy – performance relationship of turnaround companies. Different business practices between Western and Asian companies for example, were argued by Bruton, Ahlstrom & Wan (2003) as giving different effect on the turnaround effort of Asian companies, which gained much support from other fellow researchers (see for e.g. Fisher, Lee & Johns, 2004; Bruton, Ahlstrom & Wan, 2001). Therefore it would be quite interesting to seek out other differences which exist or being practiced by turnaround companies in other parts of the world, especially in South East Asia. For the purpose of this study, two strategy-related factors and two non-strategy related factors, which will be treated as confounding factor, will be examined in the effort to further explain their influence on the improvement of performance of turnaround companies.

The Factor of Operational-Efficiency Strategies

Early scholars in the field referred to this strategy as retrenchment strategy, which arguably is among the first sets of strategies to be implemented by troubled firms (Robbins & Pearce, 1992; Hofer, 1980). Literature on the field of corporate turnaround has found considerable support in the role of operational-efficiency strategy in revitalizing ailing companies (Robbins & Pearce II, 1992; Chowdury & Lang, 1996; Bruton & Rubanik, 1997; Umbreit, 1996; Vaz, 1996; Tvorik, Boissoneau & Pearson, 1998; Balgobin & Pandit, 2001). However there were several other researchers who found conflicting results in this particular role of operational-efficiency strategy (Barker III & Mone, 1994; Castrogiovanni & Bruton, 2000; Arogyaswamy & Masoud, 1997). This strategy which is usually implemented to address operational (inefficiency) problems of troubled companies was usually aimed to improve short-term performance focusing on operational measures in the effort to gain efficiency and improving margin by reducing direct cost and slimming overheads in line with volume (Tvorik, Boissoneau & Pearson, 1998; Hofer, 1980; Slatter, 1984; Chowdury, 2002). This strategy

usually involves taking actions to improve operational cash flow and restore profitability by pursuing strict cost and operating-asset reduction (Sudarsanam & Lai, 2001).

Turnaround Company usually pursues cost reduction through retrenchment of workers, pay cuts, reducing cost of materials and also overheads, though the first two are the most commonly mentioned. Scholars found conflicting evidence in the role of cost reduction to improve business performance. Many scholars found significant role of cost reduction in turning around ailing companies (Robbins & Pearce II, 1992; Chowdury & Lang, 1996; Bruton & Rubanik, 1997; Umbreit, 1996; Vaz, 1996; Tvorik, Boissoneau & Pearson, 1998; Balgobin & Pandit, 2001), though some others found the role was a bit vague (Barker III & Mone, 1994; Castrogiovanni & Bruton, 2000; Fisher, Lee & Johns, 2004). Arogyaswamy & Masoud (1997) found that retrenchment of workforce and pay cuts were both done by successfully and non-successfully turnaround firms, whereby some firms even successfully turnaround without retrenching their workers. Bruton, Ahlstrom & Wan (2001) also argued that the ability to retrench is somewhat limited in East Asia, although in their subsequent research in 2003 (Bruton, Ahlstrom & Wan, 2003), they argued that in the case that retrenchment occurred, it did improved performance. In practice, the role of cost reduction in improving business performance is widely accepted by turnaround firms. Cases of turnaround, such as IBM (Slatter & Lovett, 1999), National Steel Corporation (Tsurumi & Tsurumi, 1997), Mark & Spencer (Merriden, 2000) were all involved in cost reduction.

Operating-asset reduction was also deemed to be one of the measures taken during turnaround (Slatter, 1984; Goddard, 1993; Goldstein, 1995; Ganto & Sulaiman, 2005). This action usually involves selling-off less than full capacity of operating units such as plant or machinery, selling-off idle assets such as warehouses, office building, vehicles, and even short-term assets such as inventory and receivables (Sudarsanam & Lai, 2001; Barker III & Mone, 1994; Pearce II & Robbins, 1994; Chowdury & Lang, 1996; Castrogiovanni & Bruton, 2000; Bruton, Ahlstrom & Wan, 2003; Fisher, Lee & Johns, 2004). This action were usually adopted to provide fast cash in a badly-needed cash-flow situation experienced by many turnaround companies, while at the same time getting rid of unused surplus of assets, enhancing efficiency at the operational level and improving asset utilization. Based on these arguments, operational-efficiency strategy which aimed to improve short-term performance by gaining efficiency was argued to have a direct influence on performance of company seeking turnaround, which leads us to the first hypothesis.

H1: There is a positive relationship between operational-efficiency strategies and successful turnaround companies

The Factor of Product-Market Refocusing

The strategy of product-market refocusing, was categorized by early scholars of corporate turnaround as part of recovery strategies (Schendel et al., 1976), growth strategy (O'Neill, 1986), revenue-generating strategy (Slatter, 1984), or as part of entrepreneurial turnaround strategy (Hambrick & Schechter, 1983). However, it was Slatter (1984) who first surfaced this strategy as one among its generic turnaround strategies and differentiated it with other recovery strategies, which include strategy of improved marketing, product-market changes and growth through acquisition. In his later writings with Lovett (Slatter & Lovett, 1999), they combined these strategies under product-market refocusing, which include addition/ deletion of product lines, addition/ deletion of customers, changes in sales mix, complete withdrawal from a market segment, and entering into a new product-market segment. Product-market refocusing strategies were widely supported as the instrument of growth in the literature of corporate turnaround (Kow, 2004), especially as the decline deepens (Chowdury, 2002). Chowdury (2002) explained that this strategy has two opposite directions, which is contraction and expansion of existing product/ market niches. Contractions happen when a firm withdraws from unprofitable products, services and market segments. While expansion happens when a firm develops or acquires attractive businesses in the interest of profitability and growth. And this contractions and expansions could be complementary or mutually exclusive. Basically this strategy can be divided into two mainstreams, which is: product refocusing and market refocusing.

Product-market refocusing strategy were found to be quite popular strategies adopted among troubled firms in Malaysia (Siti Maimon, 1999) and Indonesia (Ganto & Sulaiman, 2005) after the financial crisis of 1998. Product refocusing through new product development and deletion of unprofitable product lines were practiced among troubled companies. There were cases in which careful new product development managed to bring the company out of the crisis, such as Fiat for example (Edmondson, et al. 2002). Market refocusing also found considerable support in the literature of corporate turnaround, though Harker (2001) argued it was still quite limited. Some of the scholars even argued that there were several aspect of marketing which

differentiate between failed and successful turnaround companies (Harker & Harker, 1998), such as careful selection of potential market and close relationship with customers (Cunnington, 1996). Bausch & Lomb and also Micron, a Russian microchip manufacturer, were few of many cases in which turnaround companies resorted to this kind of strategy to pull themselves out of trouble (Roger, Pace & Wilson, 2002; Bruton & Rubanik, 1997). Based on these discussions, the second hypothesis is postulated

H2: There is a positive relationship between product-market refocusing strategy and successful turnaround companies

The Factor of Government Assistance

There is no doubt that government has major influences on corporate life. They influence corporate through taxes, regulations and even sometimes in terms of business policy. In the aspect of turnaround, government was found to be helpful in some cases of government-related turnaround effort such as in the case of Lockheed Corporation (Bibeault, 1982). Another case of example was Chrysler Corp., which were helped by U.S. Federal Government by lending the company a total of US\$ 1.5 billion rescue package (Chowdury, 2002). In the wake of 2008 economic crisis, cases like this was found to be quite common. Aside from giving help, in certain cases of turnaround, government was found to be the reason for corporate decline, such as through budget cuts (Rose, 2003), or through tight monetary policy which shrink government spending nature. In some other cases, government might also influence the process of turnaround itself, such as the turnaround of Bethlehem Steel Corp. (Arndt, 2002) and Malaysian Airline System (Jayasankaran, 1999).

The role that government took when they decided to give assistance in the turnaround process was also found to be quite diverse. Many cases of government assistance came in the form of financial backup, such as the turnaround of Rover (Whitehead, 1999). Another type of assistance came in some form of mutual fund, which will be used to facilitate the debt and financial difficulties experienced by these troubled companies (see for e.g. Wilks, 2002; Taylor, 1999). This is the type of assistance which are being used by many Southeast Asian countries during the economic recession of 1998, and also recently being used by industrial nation which were being hit by recent crisis. And sometimes government also influenced the turnaround process by supervising the process itself, such as in the case of turnaround at Daewoo (Lee, 1999) and Malaysian Airline System (Jayasankaran, 1999). Even in some cases, government influenced the market side of turnaround by giving government contracts, such as in the turnaround of AMS (Mullich, 1998). These discussions on the government influence, whether direct or indirect, arguably have some effect on the turnaround process, which lead us to the third hypothesis.

H3: The factor of government assistance shall moderate the relationship between strategy and successful turnaround companies.

RESEARCH DESIGN

Financially distressed firms are defined as companies who experienced a two-year of simultaneous decline in net income and Return on Asset (ROA) between the period of 2000 and 2005. These two measures of performance were previously used by Bruton, Oviatt & White (1994), Castrogiovanni & Bruton (2000) and Fisher, Lee & Johns (2004) in their study. Successful Turnaround Company is defined as companies who experienced a stable increase of profit (net income) and ROA between 2005 and 2007. The sampling frame in this study consists of manufacturing companies listed in the Exporter Directory of North Sumatera Province. From the total of 281 manufacturing companies listed in the directory, 179 falls into financially-distressed category, in which only 135 were included in the study. From the total of 135 companies, 87 companies fall into the category of successful turnaround, while the other 48 is classified as non-turnaround. Data was collected from February – August 2009 by personal interview, in which the respondents were asked to fill up the self administered questionnaire.

Question items which were developed to measure the variables were adapted from the items developed by Barker III & Barr (2002). This study also develops additional question items to strengthen the measures of strategies and also to measure government assistance as new variable. Three managing directors who were involved in a workshop held by local government were invited to discuss and develop the additional question items. Then another eight managing directors who attended the same workshop were given the items to check its face validity in accordance to the technique developed by Zaichkowsky (1985) and Obermiller & Spangenberg (1998). The results are the final question items which were distributed to the respondents

during data collection period. Since the question item was developed in native language, the validity and reliability of the question items has to be re-check. Exploratory Factor Analysis which was used to check the convergent validity of the items produced satisfactory result except for one item from Cost Reduction and another one from Market Refocusing, which both produced communality below .5. These items were excluded from further analysis. Reliability test for each variable is also quite satisfying with the score of Cronbach's Alpha well above .7 (Hair, et.al., 2005).

Scholars have shown that firm size has been somewhat associated with successful turnaround (Bruton, Ahlstrom & Wan, 2003; Bruton, Oviatt & White, 1994; Pant, 1991). Firm size has also been research quite rigorously in the context of contingency approach (see e.g. Donaldson, 2001; Child, 1975). Therefore it was considered to be quite important to investigate the effect of firm size in the study as control variable. However since the exact and reliable figure of total asset of companies in the study was difficult to obtain, the study will use the classification given by the local government as a measure of firm size. For the purpose of measuring the firm size, the companies in the study were divided into three categories: (1) Companies with asset less than Rp. 2 billion, (2) Companies with asset between Rp 2 to 10 billion, (3) Companies with asset more than Rp. 10 billion. Dummy coding was used in the analysis, in which group (1) was considered as the reference group.

RESULTS AND DISCUSSIONS

Test for linearity of the logit as suggested by Tabachnick & Fidell (2007) showed no serious violations of the assumptions. Test for multicollinearity among predictors also showed no serious violation of the assumption of collinearity, with VIF score below 3.6. The analyses of binary logistic regression were performed in number of steps. First, each bivariate association between Size, Operational Efficiency Strategy (OEF), Product-Market Refocusing Strategy (PMR) and Government Assistance (GA) as predictor variables and turnaround success as the DV were examined in Model 1. Then each moderating variable will be paired up with each predictor variable to check the improvement of the model. And finally interaction term will be introduced with each model to check for the significance of the interaction. Mean centering was applied to all predictor variables prior creating the interaction term.

Table 1 shows the bivariate relationship between each predictor variable and turnaround success. Product-Market refocusing strategy has the biggest effect in improving the odds of turnaround success (33 times more likely than non-turnaround), while government assistance also shows significant influence on the odd ratio of turnaround success. Although Size and OES does not produce significant results ($p > .05$), Hosmer & Lemeshow (2000 : 95) argued that any variable with p value less than .25 still can be considered as a candidate in multivariable model. Therefore Size and OES will still be considered in further analysis.

Table 1. Result of Logistic Regression on Model 1.

Variable	-2LL	Omnibus Test			NR-2	B	Wald	Sig.	OR	CI	Prediction Accuracy
		Chi-2	df	Sig.							
Constant Only	175.721										64.4
Size - 1	171.956	3.765	2	0.152	0.038	0.965	3.223	0.073	2.625	.915 - 7.529	64.4
Size - 2						0.228	0.275	0.6	1.256	.536 - 2.947	64.4
OES	173.743	1.978	1	0.16	0.02	-0.653	1.928	0.165	0.52	.207 - 1.309	64.4
PMR	127.265	448.456	1	<.001	0.414	3.519	30.16	<.001	33.763	9.615 - 118.554	74.1
GA	156.2	19.521	1	<.001	0.185	1.64	16.29	<.001	5.157	2.325 - 11.439	69.6

The result of logistic regression analysis involving higher order interaction term is shown on Table 2 below. The analysis involves comparing higher order interaction with lower order components of the higher order model to see whether the inclusion of single variable can significantly improve the model, which is in some way similar to hierarchical regression analysis. Hosmer & Lemeshow (2000) argued that computation of moderating variable in logistic regression is always in the form of hierarchical analysis, in which significance of the interaction term should always be checked prior interpretation of the result.

Test of Hypotheses

Hypothesis 1: There is a positive relationship between operational-efficiency strategies and successful turnaround companies

Hypothesis 1(a): Firm size moderates the relationship between operational-efficiency strategies and turnaround success

Hypothesis 1(b): Government Assistance moderates the relationship between operational-efficiency strategies and turnaround success

A direct bivariate relationship between OES and turnaround success, which is reported at Table 1, shows that OES does not produce significant influence towards turnaround success (p: .165). The interaction between firm size and OES shown under Model 2 in Table 2, also shows that the effect carried by Size is not significant enough to have moderated the relationship between EOS and turnaround success. In this case, it is fair enough to say that the evidence does not warrant sufficient justification to reject H1(a). This finding is in agreement with the findings of some scholars in the literature which found insufficient support of this strategy positively influence turnaround success (Bruton, Ahlstrom & Wan, 2001; Arogyaswamy & Massoud, 1997). One of the logical explanation on this fact is perhaps this strategy was pursued by turnaround as well as non-turnaround companies.

Table 2. Results from Logistic regression for Model 2 - 5

Variable	-2LL	Omnibus Test			NR-2	Prediction Accuracy	Odds Ratio			
		Chi-2	df	Sig.			Model 2	Model 3	Model 4	Model 5
Constant Only	175.721					64.4				
Size - 1	171.956	3.765	2	0.152	0.038	64.4	1.699	0.418		
Size - 2						64.4	2.356	2.248		
OES	173.743	1.978	1	0.16	0.02	64.4				
PMR	127.265	448.456	1	<.001	0.414	74.1				
GA	156.2	19.521	1	<.001	0.185	69.6			11*	0.664
OES	168.483	3.473	1	0.062	0.072	62.2	1.03			
OES (SIZE -1)	167.256	1.227	2	0.541	0.083	63	0.266			
OES (SIZE -2)							0.134			
PMR	114.179	57.777	1	<.001	0.503	81.5		4.348		
PMR (SIZE -1)	104.88	9.299	2	0.01	0.561	83		564.165*		
PMR (SIZE -2)								7.299		
OES	146.935	9.265	1	0.002	0.264	74.1			0.001*	
OES (GA)	141.687	5.248	1	0.022	0.306	73.3			16.05*	
PMR	126.283	29.917	1	<.001	0.421	74.1				71.97*
PMR (GA)	124.89	1.393	1	0.238	0.431	74.8				5.468

The moderating effect of Government Assistance (GA) on OES and turnaround success, which is shown in Model 3 in Table 2, produced quite significant result. In the presence of GA, the influence of OES toward turnaround success has somewhat improved. The EOS' odd ratio of .001 is the conditioned coefficient which reflects the changes of OES when GA equals to zero. While the odd ratio of product term (16.05), shows the factor multiplier by which the multiplying factor of OES changes given a unit increase in GA. Therefore, there is enough evidence to argue that Government assistance did influence the relationship between OES and turnaround success (H1b is accepted).

Hypothesis 2: There is a positive relationship between product-market refocusing strategies and successful turnaround companies

Hypothesis 2(a): Firm size moderates the relationship between product-market refocusing strategies and turnaround success

Hypothesis 2(b): Government Assistance moderates the relationship between product-market refocusing strategies and turnaround success

Result of logistic regression analysis presented in Table 1, shows that PMR is the single most important predictor in the model. When entered into the equation model, the variable single handedly improves the prediction of turnaround success to 74.1%. With an odd ratio of 33.76, the presence of this variable in turnaround improves the probability of achieving turnaround success by as much as 33 times. Therefore it can be argued that PMR has a direct influence on turnaround success, which in this case, hypothesis H2 is accepted.

The effect of firm size on the relationship between PMR and turnaround success is reported in Model 3 at Table2. The statistical result shows that Size somewhat moderate this relationship, especially in the case of large companies (Size-1). PMR (Size-1) odd ratio of 564, shows by what "times" the multiplying factor of

PMR would have change in the case of one unit change of Size. This is particularly quite true for large companies, as they have lots of resources and access to many markets, which they can fully use to their extent in order to revitalize their company. Therefore, hypothesis H2(a) is accepted, stating that Size do moderate the relationship between PMR and turnaround success. These finding is also in agreement with the findings of some scholars in the subject (Bruton, Ahlstrom & Wan, 2003; Bruton, Oviatt & White, 1994; Pant, 1991).

The moderating effect of Government Assistance in the relationship between PMR and turnaround success seems quite weak to be supported. The result on Model 5 in Table 2, shows that the model is not significantly different from the lower order model, which means that the introduction of the product term into the model is not significant. This might explain that Government (at least in the sample of study) does not assist much in the product or marketing section of turnaround companies, though this argument is still debatable. The statistical finding of data analysis failed to support sufficient evidence to accept hypothesis 2(b).

CONCLUSION

This study has attempted to see the moderating effect of Government Assistance in the relationship between Strategies and Turnaround Success. Firm Size was also considered as control variable in the analysis. The result shows that PMR has a direct and strong influence on turnaround success. The moderating variable of size and government assistance in this study was found to be partially supported. Firm size was found to moderate the relationship between PMR and turnaround success, while Government assistance moderates the relationship between OES and turnaround success. As with other study using logistic regression, the application of the study findings outside the sample should be carefully considered since normality was not universally assumed in logistic regression. This study is considered to be a mere step in the much-undisclosed world of corporate turnaround, especially in the aspect of government assistance in revitalizing troubled companies.

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THE RELATIONSHIP BETWEEN STRATEGIC ORIENTATION AND CULTURAL VALUES: THE EFFECT OF BUSINESS OWNERS'/LEADERS' CULTURAL VALUES ON THE STRATEGIC BEHAVIOR IN CONDITION OF CRISIS: A RESEARCH ON SMALL ENTERPRISES IN ISTANBUL CHAMBER OF INDUSTRY

Binali Doğan
Marmara University, Turkey
Ata Özdemirci
Marmara University, Turkey

ABSTRACT

During the last era in business strategy area, some theoretical and empiric studies were made about the role of culture on adopting strategies. These studies are mostly based on Miles and Snow's strategy typology and Hofstede's value groups. While in some of these works, culture is found as an important factor with other different factors on strategy formulation and adoption, some works defends that culture has a limited effect. The perspective of these works were based on the relationship between strategy and national culture or business culture and because of this difference, they have reached different results.

This study assumes that, "cultural values of business owners or leaders" effects "strategic orientation" and "the perception difference of crisis as opportunities or threats" and also their "strategic behavior in the condition of crisis". As he said, Hofstede's uncertainty of avoidance scale is for multicultural researches, we preferred Voich's "Uncertainty Avoidance" scale for focusing individuals. We also used Rotter's "Internal/External Orientation" which is used by Trompenaars on the management area, are taken as dimensions of cultural values. Miles and Snow's strategy typology (prospector, analyzer and defender) is taken as dimensions of strategic orientation. We strongly assume that if the uncertainty avoidance of business owners or leaders is high and they are external oriented, they will perceive the condition of crisis as a threats because of its uncertain nature, and also they will choose defensive strategies (decreasing the costs, economizing, strengthening the cash flow, staying stabilized in the market, etc.). If the uncertainty avoidance of business owners or leaders is low and they are internal oriented, they will perceive the condition of crisis as an opportunity and also they will choose proactive strategies (making investment, increasing the market share, penetration into new markets, etc.).

On this study, first of all, we made a literature review about culture and strategy relationship. The hypothesis about the relationship between cultural values of "Uncertainty Avoidance" and "Internal/External Orientation and strategic behavior is formed from the theoretical and empiric studies on this area. This hypothesis is be tested on the small enterprises of Istanbul Chamber of Industry.

Keywords: *Cultural values, strategic orientation, crisis management, uncertainty avoidance, internal orientation, external orientation*

LITERATURE REVIEW

There are lots of typologies about the concept of strategic orientation in the strategic management literature. But two of these typologies are accepted as milestones: Miles and Snow's typology (prospector, analyzer, defender, reactor) (Miles and Snow, 1978) and Porter's typology (cost leadership, differentiation, focus) (Porter, 1980). Just like Vankatraman's approach to Miles and Snow's typology with 6 dimensions (aggressiveness, analysis, defensiveness, futurity, proactiveness, riskiness)(Vankatraman, 1989) there had been lots of studies about these typologies. Some of the studies about strategic orientation researched the relationship between strategic orientation and performance (Morgan and Strong, 2003; Kaya ve Seyrek, 2005; Sanchez and Marin, 2005; Pleshko,2006; Pleshko and Nickerson, 2008; Azhar,2008)., and some of

them researched the factors that effects the forming of strategic orientation (Zhou and Li, 2007). The basic factors that effect the strategic orientation are environmental factors (market turbulence and technology turbulence), organizational factors (organizational structure, organizational culture and leadership) and institutional factors (government interference and corporate governance) (Zhou and Li, 2007).

The effect of organizational factors on strategic orientation is researched in the base of structure-strategic orientation (Lin and Germain,2003) and organizational culture – strategic orientation (Muafi, 2009; Fang and Wang, 2006) relationship. Beside these, although there had been lots of studies about the role of leader on success of strategic decisions, there is no research about the relationship between the leaders cultural values and strategic orientation.

The studies about the effect of culture are mostly about the national culture, management styles and organizational practices (Mueller and Thomas, 2000, Dong and Glaister, 2007; Wennekers et al, 2007;), especially after Hofstede's work, "Culture's Consequences" (Hofstede, 1980). The studies about the business strategies and culture can be divided into two groups: The studies that find a weak relationship (Singh, 2007) or no relationship (Meyer,2007) between national culture and strategy, the studies that finds big relationship between business culture and strategy (Muafi, 2001;Fang ve Wang, 2006).

Individuals in a society have different cultural values, these cultural values are the causes of attitudes and behaviors of individuals. On this study, it will be researched that; if the business owners' or leaders' cultural values and their strategic orientations have a relationship or not.

Hofstede defines culture as "collective programming of mind which distinguishes the members of one group category of people from another" (Hofstede, 2007). This collective programming form by the struggle of a group with the threats that comes from three sources (human-nature, living together, life-death). (Hofstede, 1984) Schein defines culture as "the way in which a group of people solves problems". (Schein,1985). For enterprises, Shine attracts attention for a vital problem: The relationship between enterprise and environment. The problem has two sides: One is seeing the real problem and the other is way of solving this problem. Both are about the strategic orientation factor and we can say that the selection process of this factor depends the owner's or leader's uncertainty avoidance and internal-external oriented cultural values.

Uncertainty avoidance is "the extent to which the members of a culture feel threatened by uncertain or unknown situation" (Hofstede, 1991:113). Uncertainty avoidance should not be confused with risk avoidance. There must be a strong relationship between uncertainty avoidance and strategic orientation as we told above. If the owner's or leader's uncertainty of avoidance is high, it's expected that they will keep away from the uncertain and risky strategies like prospector, innovator, future oriented, and if the owner's or leader's uncertainty of avoidance is low, it will be just the opposite.

The cultural value dimension of locus of control can be defined as the response style of a person to his circumstances, with other words, tendency to agree the environment's treatment (external orientation) or dominating the circumstances (internal orientation) (Trompenaars, 1994). It's strongly expected that, internal oriented leaders or owners choose prospector, innovator and future oriented strategy because of their problem solving style; and external oriented leaders or owners tend to choose defender and analyzer strategies.

H1: If the uncertainty avoidance of business owners or leaders is high, they will perceive the condition of crisis as threats and they will choose defensive strategies.

The concept of uncertainty avoidance has got similarities with risk avoidance. Risk is often expressed as a percentage of probability that a particular event may happen (Hofstede, 1991:113). Beyond this definition, risk is a negative attitude to the possible loses in the real life (Forlani, Parthasarathy and Keaveney, 2008). It can be considered as a cultural characteristic that is defined as uncertainty based mood of loss (Williams and Voon, 1999), (Williams and Narendran, 1999). The manners of individuals about the risk have two dimensions. One is the perception of risk, and the other is risk propensity. Risk propensity is individual's current tendency to take or avoid risks (Williams, Zainuba ve Jackson, 2008). Risk propensity is the outcome of the individual's perception of risk (Stkin ve Weingart, 1995). Some people's willingness and unwillingness about taking risks is explained by risk propensity. As we think about the uncertainty avoidance with risk propensity, we see that it consists of two dimensions. One is uncertainties that come from the social relations and its solutions. In management literature, this dimension's effects appear with managers' or leaders' solutions, rules and procedures. Business owners or leaders see rules and procedures as tools for making business. It can be called as being normative. The second is environmental based uncertainty, and its

causes of loss. It can be called as being deliberate. So, uncertainty avoidance will bring the defensive strategies because of the perception of possible loss based on uncertainty. And also;

H1a: If the business owners or leaders is more normative, they will perceive the condition of crisis as threats and they will choose defensive strategies.

H1b: If the business owners or leaders is more deliberate, they will perceive the condition of crisis as threats and they will choose defensive strategies.

H2: If the business owners or leaders risk propensity is low, they will perceive the condition of crisis as threats and they will choose defensive strategies.

The internally oriented business owners or leaders are expected to choose prospector, innovator, and future oriented strategies, the externally oriented business owners and leaders are expected to choose defensive strategies.

H3: If the business owners or leaders are external oriented, they will perceive the condition of crisis as threats and they will choose defensive strategies.

METHODOLOGY

The type of the research is hypothetic research. Data collection method is survey. Sample selection method is coincidental. Our only limitation is about the number of workers. We decided to limit this number with 250 workers, because of the possible strategy formation differences in institutional and big-scaled enterprises. The universe of this work consists of the small-scaled enterprises in the list of Istanbul Chamber of Industry that means approximately 6000 members. Our basic assumption is that strategy process starts from the top, and it's obvious to be like that in small-scaled companies. We made face-to-face survey as much as we can, but we'll also used mail and telephone survey for reaching maximum participation.

Measures

We used the scale of Voich for uncertainty avoidance, the scale of Rotter for locus of control (internal/external orientation), and the scale of Chew for risk propensity (risk liking).

We developed a scale with 11 items for strategic behavior in condition of crisis based on the crisis and strategic behavior literature. The content of the questions is discussed below. We also asked the strategy of their company to the participators that is based of Miles and Snow that has been corrected and adapted by (Zahra ve Pearce, 1990) for strategic orientation.

Table 1: Measures Used in Research

MEASURE	DEVELOPERS	ITEM NUMBER
UNCERTAINTY AVOIDENCE	Voich, (1995)	5
RISK LIKING	Chew, (1996)	8
LOCUS OF CONTROL	Rotter, (1966)	29
STRATEGIC BEHAVIOR IN CONDITION OF CRISIS	Original Measure (2010)	11

The survey prepared for the research has 75 questions. As seen at Table 1, measure of uncertainty avoidance (Voich, 1995) with 5 items, measure of risk liking (Chew, 1996) with 8 items, measure of locus of control scale (Rotter,1966) with 29 items and measure of strategic behavior in condition of crisis (Original Measure, 2010) with 11 items are used in the survey. There is also 1 control question about the participants' contribution to firm's strategy, 3 questions about the strategy type, 8 questions about the firm's perceived

performance, 1 question about firm size, 1 question about the sector of the firm, and 8 questions about the demographics. Likert Scale-5 is used in all questions except Rotter's scale which uses 1 and 0 grading method. (Locus of Control Total Point=0 Internal Oriented, Locus of Control Total Point=23 External Oriented, 6 questions are dummy questions).

We used factor analysis to determine the dimensions of the measures. We also made K-S test for normal distribution and Cronbach Alpha test for reliability. Correlation and Regression tests are made with SPSS 17.0 to measure the power of our hypothesis.

Before testing the main hypothesis, we looked at the descriptive statistics and the correlation between firm size, firm strategy, performance and the factors in the model. Then, we made a multi regression test for measuring the effect of the independent variables (Uncertainty Avoidance, Risk Propensity, Locus of Control) on dependent variable (Strategic Behavior in Condition of Crisis). Then we looked at the effect of Strategic Behavior in Condition of Crisis on Firm Performance and formed the model.

Factor Analysis and Reliabilities

We made expletory factor analysis for establishing the sub dimensions of measures. All factors have passed the KMO Measure of Sampling Adequacy and Bartlett test of Sphericity which means that our data set is appropriate for factor analyses (Table 2). Principal components and varimax method are used in analysis. For all measures, items which have factor weight below 0,50; unique items in a factor; items with close factor weights are leaved out of evaluation. After this processes, factors which have initial eigenvalues over 1,00 and Cronbach Alpha over 0,65 are:

2 factors in Uncertainty Avoidance Measure (Cumulative Extraction Sums= %79,611) which can be called as "Normative" (Cronbach Alpha=0,787) and "Being Deliberate" (Cronbach Alpha=0,679).

1 factor in Risk Propensity Measure (Cronbach Alpha=0,780)

3 factors in Strategic Behavior in Condition of Crisis Measure (Cumulative Extraction Sums= %70,214) which can be called as "Stop Seeking Opportunities" (Cronbach Alpha=0,747), "Financial Discipline" (Cronbach Alpha=0,674), and "Stability" (Cronbach Alpha=0,668).

Also questions about firm performance are collected under two dimensions: Concrete Performance and Abstract Performance. The first factor of performance consists of sales, financial performance, profitability and market share items which can be called as concrete performance criterions; and the second factor of performance consists of reaching goals, handling difficulties, HR quality and meeting expectations items which can be called as abstract performance criterions. Locus of Control is a grading measure and is not adequate for factor analysis.

Table 2: The Results of Factor and Reliability Analysis

FACTOR NAME	ITEMS	FACTOR LOADINGS	FACTOR EXTRACTION (%)	RELIABILITY ANALYSIS (CRONBACH ALPHA)
UNCERTAINTY AVOIDANCE – NORMATIVE	Importance of rules and regulations	,912	52,78	,787
	Importance of job requirements and instructions	,878		
UNCERTAINTY AVOIDANCE – BEING DELIBERATE	Being deliberate for possible problems	,867	26,83	0,68
	Being contented with certain situation	,711		
TOTAL			79,611	
Kaizer Meyer Olkin Measure of Sampling Adequacy			0,596	
Bartlett Test of Sphericity Chi-Square			62,207	
df			6	

			Sig.	0
RISK LIKING (RISK PROPENSITY)	Nothing is compared with value of my life (reverse)	,829		53,97
	Having fun with uncertainty and risk of failure.	,803		0,78
	Life is taking risks.			
	Respect for risk takers.	,758		
	Addicted to the excitement of danger and uncertainty.	,647 ,611		
TOTAL				53,968
Kaizer Meyer Olkin Measure of Sampling Adequacy				0,756
Bartlett Test of Sphericity Chi-Square				88,814
df				10
Sig.				0
STRATEGIC BEHAVIOR IN CONDITION OF CRISIS - STOP SEEKING OPPORTUNITIES	Seeking for new markets in condition of crisis (reverse)	0,864		33,45
	Seeking for new customers in condition of crisis (reverse)	0,829		0,747
	Experiencing crisis as an opportunity for growth (reverse)	0,739		
STRATEGIC BEHAVIOR IN CONDITION OF CRISIS – FINANCIAL DISCIPLINE	Decreasing the labor costs in condition of crisis	0,771		21,82
	Decreasing the stock in condition of crisis	0,765		0,674
	Importance of economization in condition of crisis	0,733		
STRATEGIC BEHAVIOR IN CONDITION OF CRISIS – STABILITY	Stopping investments in condition of crisis	0,889		11,88
	Tried to be stable in condition of crisis	0,778		0,668
TOTAL				67,139
Kaizer Meyer Olkin Measure of Sampling Adequacy				,701
Bartlett Test of Sphericity Chi-Square				163,260
df				36
Sig.				0

When we look at the descriptive statistics at Table 3, we can see that during the crisis, firm owners/leaders prefer the financial discipline (M=3,89) and stability (M=3,68) for defensive strategies. We can also say that firm owners/leaders are very normative (M=4,27), but they have low risk propensity (M=2,64) and they are mostly internal oriented. (M=7,21; 0=internal oriented, 23=external oriented)

Table3: Descriptive Statistics

Factor	N	Mean	St. Dev.
Stop Seeking Opp.	65	2,4718	1,09432
Financial Discip.	65	3,8872	,99001
Stability	65	3,6846	1,06642
Being Deliberate	65	3,7231	1,03468
Normative	65	4,2769	,89281
Risk Propensity	65	2,6444	,82340
Locus of Control	65	7,2154	4,3499
Abstract Performance	65	3,5117	,71190
Concrete Performance	65	3,2654	,72467

Correlation test between factors and demographics are shown at Table 4. There are only 3 significant correlations. One is between firm seniority and financial discipline ($r=0,297$), second is between professional seniority and financial discipline ($r=0,259$), and the last one is between education and risk propensity ($r=0,280$). We see that when seniority is high, managers tend to use financial discipline. It means that experience teaches financial defense to the leaders. Also by the education, risk propensity rises too. It means that education increases leader's courage.

Table 4: Correlations Between Factors and Demographics

	Age	Education	Professional Seniority	Firm Seniority
Stop Seeking Opp.	,204	-,178	,083	,039
Financial Discip.	,131	-,116	,259*	,297*
Stability	,109	-,142	,039	,194
Being Deliberate	-,032	-,194	-,060	-,019
Normative	,004	,047	,042	,000
Risk Propensity	,058	,280*	-,139	-,104
Locus of Control	-,023	-,076	-,184	-,155
Abstract Performance	,119	-,227	,164	,179
Concrete Performance	-,119	,130	,025	-,070

Correlation test between the factors are shown at Table 5. We see a high positive correlation between "external locus of control" and "stop seeking opportunities" ($r=0,360$), "being deliberate" and "stability" ($r=0,436$), and high negative correlation between "risk propensity" and "financial discipline" ($r=-0,312$). These relations confirms our hypothesis, but we'll say the last decisions after the multi regression test. When we look at the relations between the independents, we see that "risk propensity" and "being deliberate" are negatively correlated ($r=-0,319$) and have a risk of colinearity which will be tested before the regression test.

The relations out of the model says that; there is a negative correlation between “prospector strategy” and “stop seeking opportunities”, negative correlation between “prospector strategy” and “being deliberate” as expected; negative correlation between “analyzer strategy” and “stop seeking opportunities”, negative correlation between “analyzer strategy” and “stability”; positive correlation between “defender strategy” and “stability”.

The relations that supports our hypothesis are; the negative correlation between “prospector strategy” and “being deliberate”; negative correlation between “prospector strategy” and “external locus of control”, positive correlation between “prospector strategy” and “risk propensity”, negative correlation between “analyzer strategy” and “external locus of control”; positive correlation between “defender strategy” and “external locus of control”.

When we look at the correlations about the perceived performance, we see that only financial discipline is successful in the defensive strategies, prospector and analyzer strategies are successful in the strategy types and interestingly, external locus of control and perception of performance is negatively correlated. It means that externality brings pessimism whit it.

Table 5: Correlations Between Factors

	1	2	3	4	5	6	7	8	9	10	11	12	13
1.Stop Seeking Opp.	1												
2.Financial Discip.	0,12	1											
3.Stability	0,134	,412**	1										
4.Being Deliberate	0,007	0,183	,436**	1									
5.Normative	-0,24	0,242	0,138	,325**	1								
6.Rik Propensity	-0,158	-,312*	-0,173	-,319*	-0,215	1							
7.Locus of Control	,360**	0,063	0,222	0,088	-0,179	-0,067	1						
8. Prospector	-,496**	-0,015	-0,193	-,299*	-0,032	,328**	-,352**	1					
9. Analyzer	-,275*	0,079	-,345**	-0,099	0,053	-0,035	-,349**	,468**	1				
10. Defender	0,179	0,244	,315*	0,23	-0,185	-0,01	,278*	-0,072	-0,232	1			
11. Size	-0,105	0,086	-0,056	-0,188	0,023	-0,079	0,093	0,056	-0,128	-0,232	1		
12. Abst.Perf.	-,342**	,256*	-,018	,018	,235	-,042	-,346**	,415**	,392**	-,025	,014	1	
13. Conc.Perf.	-,290*	-,116	-,155	-,122	,084	-,067	-,300*	,305*	,435**	-,367**	,235	,401**	1

*Sample Size =65 *p<0,05, **p<0,01

Analyze of the Research Model

For analyzing the model and hypothesis, multi regression test is applied to the data. The significant effects are “external locus of control” on “stop seeking opportunities” ($\beta=0,335$, Sig.=0,009); “risk propensity” on “financial discipline” ($\beta=-0,296$, Sig.=0,030); “being deliberate” on “stability” ($\beta=0,366$, Sig.=0,005) (Table 6).

Table 6: Multi Regression Test for Hypotesis

	Stop Seeking Opportunties		Financial Discipline		Stability	
	β	Sig.	β	Sig.	β	Sig.
Being Deliberate	0,048	0,711	-0,018	0,895	0,366**	0,005
Normative	-0,116	0,367	0,083	0,533	0,010	0,937
Risk Propensity	-0,145	0,264	-0,296*	0,030	-0,041	0,746

Locus of Control	0,335**	0,009	0,063	0,624	0,186	0,131
Adjusted R ²	0,11		0,044		0,137	
N	65		65		65	
F	2,921		1,711		3,46	
Sig.	0,029		0,16		0,013	
S.E.	1,01334		0,94342		0,98278	

When we look at the effects of strategic behavior in condition of crisis on perceived firm performance, we see that the significant effects are “stop seeking opportunities” on “abstract performance” ($\beta=-0,362$, Sig.=0,003) and “stop seeking opportunities” on “concrete performance” ($\beta=-0,271$, Sig.=0,031); “financial discipline” on “abstract performance” ($\beta=0,339$, Sig.=0,009). (Table 7)

Table 7: Multi Regression Test for Performance

	Abstract Performance		Concrete Performance	
	β	Sig.	β	Sig.
Stop Seeking Opportunities	-0,362**	0,003	-0,271*	0,031
Financial Discipline	0,339**	0,009	-0,041	0,762
Stability	-0,111	0,384	-0,102	0,448
Adjusted R ²	0,173		0,055	
N	65		65	
F	5,407		2,242	
Sig.	0,002		0,092	
S.E.	0,64722		0,70445	

Research Model

H1: If the uncertainty avoidance of business owners or leaders is high, they will perceive the condition of crisis as threats and they will choose defensive strategies.

H1a: If the business owners or leaders is more normative, they will perceive the condition of crisis as threats and they will choose defensive strategies.(Hypothesis is not supported).

H1b: If the business owners or leaders is more deliberate, they will perceive the condition of crisis as threats and they will choose defensive strategies.

This hypothesis is supported at the $p<.05$ level on one dimension of defensive strategic behavior in condition of crisis. (The significant effect of being deliberate on stability).

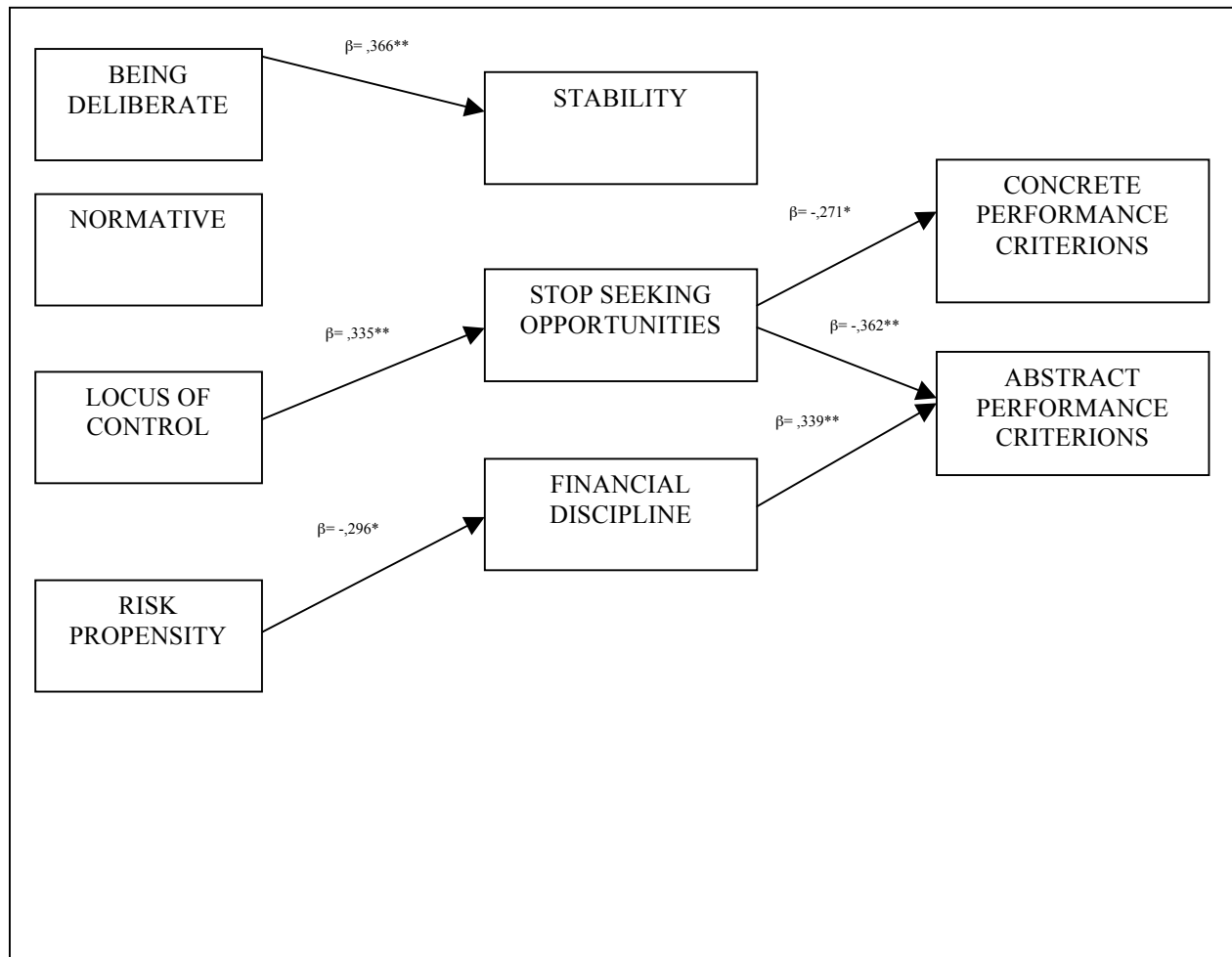
H2: If the business owners or leaders risk propensity is low, they will perceive the condition of crisis as threats and they will choose defensive strategies.

This hypothesis is supported at the $p<.05$ level on one dimension of defensive strategic behavior in condition of crisis. (The significant effect of risk propensity on financial discipline).

H3: If the business owners or leaders are external oriented, they will perceive the condition of crisis as threats and they will choose defensive strategies.

This hypothesis is supported at the $p < .05$ level on one dimension of defensive strategic behavior in condition of crisis. (The significant effect of external locus of control on stop seeking opportunities).

The effect of defensive strategic behavior in condition of crisis on perceived firm performance is not our basic hypothesis but it is shown in the model in Figure 1.



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THE EFFECTS OF GLOBAL ECONOMIC CRISIS TO THE MARKETING STRATEGIES OF HOSPITALITY BUSINESS: ISTANBUL FIELD RESEARCH

Burhanettin ZENGİN
Lütfi Mustafa ŞEN
Sakarya University, Turkey

ABSTRACT

Providing current incomes; tourism sector has a significant position on overcoming balance of payment deficits, but as the structure of its demand, tourism is very sensitive on economic, social, political turbulences and various natural disasters. Thereby in economic crisis periods; domestic and outbound demand destruction could be seen in countries which receive tourists. Marketing strategies has a vital importance on preventing that demand destruction, because they are composed of a dynamic structure and forming adaptation to the current situations. It's very important in revising and recruiting marketing strategies, in crisis periods.

The aim of this study is to present alternative suggestions and contribute to the previous researches on marketing strategies of public and private business at tourism sector in probable crisis periods. Thus, its aim is to empower tourism bussiness, and operating Turkey's tourism sector by providing less influence from crisis compared to its rivals and contributing to the national economy, while presenting suggestions to the relevant directors of organizations with alternative marketing strategies.

In our study, primarily, the literature basic study constructed via by giving information on crisis and crisis management, effects of crisis in tourism, and marketing strategies in tourism. Then, by analyzing the causes and the results of global economic crisis besides the current studies in literature, an extensive survey has been prepared in marketing strategies that will be applied by minimizing the effects of probable crisis situations in the future.

Through a survey, the data of our sample -which is 30 % of the realistic universe, analyzed via SPSS for Windows 15.0 package program statistically. The data collection method and data analyzing methods handled in details under Methods title. In the end, by analyzing those datas, alternative marketing strategies developed in tourism business by preventing the negative effects of crisis at probable crisis periods like current global economic crisis.

Key Words: *Tourism, Economic Crisis, Crisis Management, Marketing Strategies, Tourism Business and Crisis.*

INTRODUCTION

Afterwards the global economic crisis, whose impressions felt globally in 2008, international incoming tourists in Europe destination decreased 5,6% to 459,7 million in 2009 which was 487,1 million in 2008 (UNWTO, 2010). On the other hand, the number of foreign tourists visiting Turkey in 2008 which was 30,9 million; increased 3,3% to 32 million in 2009. Beside this, 21.950,8 million of Turkey's tourism revenue in 2008 declined 3,2% to 21,249,3 million in 2009 (www.turizm.gov.tr). As shown above, unlike Europe, Turkey's incoming tourists number was increased despite the crisis. However, the decrease in tourism revenue is pointing the negative effects of global economic crisis on Turkey, too.

Preventing the demand destruction caused by economic crisis, is depending the properties of crisis and applying successful marketing strategies which are developed according to consumer's purchasing behaviours in crisis periods. The success of marketing strategies in crisis periods is depending in macro level; the effects of marketing strategies applying by public authorities; within the tourism business in micro level.

DEFINITION OF CRISIS AND ITS PROPERTIES

“Crisis is unexpected and insensible situation that makes insufficient of organs preventing and adapting mechanisms and threatens the current values, aims and assumptions of organizations which should be counteract immediately. Stress, anxiety, panic etc. are the terms that expressing the emotions living in crisis periods” (Tağraf ve Arslan, 2003:150).

Some crises caused by natural disasters like earthquake, hurricane, volcanic eruption, cyclone, avalanche, etc. Other crises are man-made ones like environmental pollution, crime, terrorism, economical depression and strike, or short, or long term, or natural disaster based, or man-made; all types of the crisis' features that are affecting the tourism industry, can be shown in three titles (Pike, 2004:158):

- In the long term, all destinations are under the threat of crisis.
- A crisis situation will be rarely predictable.
- Crisis causes, are formed under the control of tourism industry.

DEFINITION AND FEATURES OF CRISIS MANAGEMENT

Crisis is arising by the interaction of technology, human behaviours, organizational structure, management politics and organizational culture, etc. Crisis management requires analyzing these factors in detailed. Organizational development, arising with correlative interaction, adaption and efficiency of organizational factors (physical, financial, mortal), besides the bound and mutual interaction of all those. Because of this, in analyzing process of crisis, all of these factors should be taken into consideration (Genç, 2004:336).

Crisis management has some specific features like these (Haşit, 2000:65):

- Crisis management is aiming the recovery of organizations in the shortest time, which are predicting crisis situations, distinguishing its kinds, having precautions and learning from crisis.
- Crisis management is a persistence implementation without a beginning or end.
- Crisis management is formed according to the kind of the crisis. As every crisis has a specific signal and solution, crisis management will be shaped according to the kind of the crisis.
- As crisis is threatening strategic plans, crisis management is handling the part of strategic management.

CRISIS AND TOURISM

In general, tourism crisis can be defined as a situation like; hindering tourism activating process, by destroying the destination's security, attraction and tranquility image, influences negatively the sense of the visitors and as a result of decreasing the tourist comings, expenditure and causes disruptions in tourism activities; effecting negatively to tourism economy (Glaesser, 2005:6; Avcıkurt ve diğ., 2006:50). Crisis management in tourism sector, is an interception function of data collection, evaluation, action planning, application and control for the facts which are effecting negatively to a product's, organization's, country's or region's image unexpectedly and as a result of this it causes social and economical loss (Köroğlu, 2004:71).

Tourism has an economic activity by creating currency and employment; on the other hand a socio-cultural activity with gathering up various cultures and corresponding human's needs of relaxation. As being among the fastest growing sectors in the world, tourism today has important problems. Crisis occurring in the world, effecting tourism industry negatively, too (Aymanıuy, 2001:109). Crisis, occurring in tourism, will effect a country, region, zone and even the world. Crisis may occur because of intra-sector causes as well as exterior causes, too. Although the causes are not economic based, they will expose economic results. Producers of these economic results are coming through due to the demand destruction (Avcıkurt ve diğ., 2006:52).

In 2008, reflection of the credit crisis to the financial sector in the largest economy of the world USA, and growing gradually of this problem, many economies influenced by global base and coming through a financial crisis situation. The negative effects of global crisis are seen in all of the sectors in Turkey, too. Besides the intra-sector crisis of tourism, these global based crises influence the sector considerably and forming difficulties at management of the business operating in this industry (Bahar ve diğ., 2009:28).

It's certain that, coping with this global crisis, which effects decreasing gradually, various touristic products and services produced. Meetings, incentive travels, conferences and exhibitions are determined as the most affected touristic products. Apparently, beside the shopping and entertaining activities in various destinations at shores and cities; cultural attractions decreased significantly (UNWTO, 2009). The strategies that would be followed by Turkish tourism against global economic crisis is very important. In this context, rather than the number of incoming tourists, attracting the high level income tourist profile has gained importance. Emphasizing the service quality, customer satisfaction, and innovation, will decline the costs while increasing the revenue sources and maximizing the revenue and keeping the cash flow are so important to cope with the crisis with minimum damages, and even benefits (Demir, 2008).

MARKETING STRATEGIES IN TOURISM SECTOR

Strategies are the basic preferences depending on the internal and external environmental conditions and in accordance with their own sense of mission and vision, showing the fundamental choice of business resources at which area will be allocated for what purposes (Koçel, 2005:455). Strategies contain the things that should be done to reach the purposes and achieve them. For example, the aim of increasing Saturday sales 20% is a decision, but the methods and should-do things for reaching this aim requires strategies (Akat, 1998:107).

Marketing strategies are made to reach the marketing purposes; forming a performance theme for the business in a particular market. It is related with identifying a target market and developing the suitable marketing mix for his aim. In this case, marketing strategies are forming two main parts following each other (Mucuk, 2001:40):

- i. Target Market Choices: Identifying reasonably homogen consumer group or groups for the business.
- ii. Forming the marketing mix: The controllable variable group (or a suitable combination of those variables) that the business bring together for satisfying the market.

Marketing strategies in tourism sector are the comparison of touristic product supply and environmental factors of customers. Looking at the characteristics of tourism marketing strategies, important clues can be found by business managers at implementing their activities. Strategies should contain long term decisions and activities while they're evaluating frequently (Oral, 1988:19; Hacıoğlu, 2005:46, Kaşlı ve diğ. 2009:90).

According to the product-service life cycle, there are various marketing strategies that can be followed by business. These strategies are discussed briefly below (Altunışık, 2009:335).

1. **Input Stage Strategies:** At this stage, the most important problem is recognition and knowing. Because of this, suitable strategies with this aim;
 - Including the users to service design
 - Identifying the first users
 - Having a feedback from the first user
 - Forming the demand of industry
 - Making presentations to market entry
 - Positive ear to ear stimulation of communication can be considered
2. **Growth Stage Strategies:** This stage is starting from reaching the breakeven stage of goods or services, and continues until the maturity stage. Marketing strategies will be followed like those (İslamoğlu, 2009:119);
 - Production methods and techniques will be developed as reducing the costs.
 - Developmental changes should be done in the functions, qualities or appearances of goods or services
 - Unless new competitors enter the market or you have a free capacity or have expectation of reducing prices will increase the sales; the prices shouldn't be reduced. Otherwise, must be reduced.
 - Increases the numbers of producers, increases the intermediaries in distribution channels, too. Because of this, distribution decisions should be reviewed.
 - Promotion activities should be oriented to brands from goods or services.
3. **Maturity Stage Strategies:** In the maturity stage which is the top selling and afterwards reducing period, three main marketing strategies will be applied. These are (Mucuk, 2001:146);

- Strategies that are making changes in market are helping to find new markets and market segments beside providing usage of goods and services intensively by the current customers.
 - Strategy of making changes in goods or services will be aroused the goods and services by qualified improvement strategy.
 - The innovation of marketing are mixed by changes on various factors of it, will arouse the sales. At the top of it, price reduce strategy is coming.
- 4. Reduction Phase Strategies:** In this period, the sales of goods and services starting to reduce. Following strategies can be applied according to this situation (Tek, 1999:422);
- Keeping the goods and services: Expected vitals will leave the markets one day.
 - Going some restriction in goods and services: Various production and marketing costs are terminated.
 - Withdrawal of goods or services: It will be applied by withdrawing all the goods or services or a part of them from some regions or from all over the country.

PURPOSE

The aim of this study is to present alternative suggestions and to contribute the previous researches on marketing strategies of public and private business in tourism sector in probable crisis periods for minimizing the negative effects of crisis. Thus, this study will be beneficial for empowering the tourism business operating in Turkey's tourism sector- which is an important sector that provides currency income-, with providing less influences from economic crisis according to the rivals operating in other destinations and contributing much more to the national economy, beside presenting suggestions to relevant people with alternative marketing strategies.

METHOD

This study is a quantitative research basing on survey model. The reason for choosing this method, ease of collecting the data in a short time which is wanted from wide range of experimental and the possibility to analyze the data in a quick and reliable way via the computers supported by statistical programs. Survey questions are consisted of 2 groups. First group of demographic questions designed at categorical style. The main scale prepared oriented to solve the main problem of the research, is quinted liqert scale.

The ideal universe of the study is consisting 4 and 5 star hotel managements in Turkey. But by considering the time limit, the realistic universe determined as 32 of 5 star and 75 of 4 star hotel managements in Istanbul. The sample of the study consists 10 five star, 22 four star tourism management certificate hotel managements that constitutes 30% of realistic universe. Surveys applied in the middle and senior managers of 4 and 5 star hotels. 125 of the survey has returned, 101 of them analyzed, and 24 surveys eliminated because of some deficiencies.

The data analyzed via 'SPSS 15.0 for Windows' program at computer platform. 'Frequency Analysis' has done for the demographic and organizational data collected by the survey. Furthermore chi-square test, which is a technique for examining relationships, applied on suitable data.

FINDINGS

By investigating demographic data in Table-1, it is shown that bachelor and master graduated degree staffs hold 75.22% among all staffs. Tourism oriented graduation in staffs is 65.3% Furthermore, the rate of survey participants whose total work-duration in tourism industry more than 11 years - is 42.5%. Besides, 90% of survey participants take part in middle-level managers and senior managers, and participated in our survey suggests such a big part, formed by the middle and upper level managers in our sample group is very high level of training and experience in the sector. This situation is thought to increase the credibility of our work.

Table 1: Demographic Data

CHARACTERISTICS	SAMPLE	
	n	%
Sex		
Male	64	63,3
Female	37	36,6
Total	101	100
Age	n	%
18-25	10	9,9
26-30	26	25,7
31-35	24	23,7
36-40	23	22,7
41 and over	18	17,8
Total	101	100
Marital Status	n	%
Married	61	60,3
Single	40	39,6
Total	101	100
Educational Background	n	%
Primary Education	2	1,9
Secondary Education	23	22,7
University	58	57,4
Graduate Education	18	17,82
Total	101	100
Have you received tourism education?	n	%
Yes	66	65,3
No	35	34,6
Total	101	100
Division	n	%
Rooms	14	13,8
Food & Beverage	14	13,8
Technical Services	4	3,9
Accounting	30	29,7
Sales & Marketing	23	22,7
Human Resources	12	11,8
Security	4	3,9
Total	101	100
Position in The Business	n	%
Personnel	10	9,9
Middle Manager	53	52,4
Senior Executive	38	37,62
Total	101	100
Total Working Period in Tourism Industry (Year)	n	%
Less than a year	2	1,9
1-5	24	23,7
6-10	32	31,6
11-15	15	14,8
16 and over	28	27,7
Total	101	100
Total Working Period in The Business That You are Working Now (Year)	n	%
Less than a year	4	3,9
1-5	36	35,6
6-10	28	27,7
11-15	18	17,8
16 and over	15	14,8
Total	101	100

Table 2 shows the frequency analysis of data pertaining to business. As shown in table 76.2% of those surveyed 'the work they have produced business services decreased by 1-19%, 1-19% of employment in the lower 92% mentioned that. This state of accommodation businesses that affected by the economic crisis is serious. Against this survey, participants 52.4% of the 2009 year of business in terms of economic as well and as good as had passed to state and in **2010** the 69.2% URL economically well be a year estimate of accommodation establishments in the country in other sectors businesses compared to the crisis is less than impressed.

In this case, no doubt, businesses 61.4% of the previous economic crises have been exposed and hence on this experience of being, as well as large enterprises due to their funding too much about the shortage has not also a great role is considered. Indeed, our survey of participating businesses 59.4% 4 stars, and quarters are five star hotels and also participated in the survey 62.4% of those quarters despite the economic crisis, do not face difficulties in financing stated.

Table 2: Data Related to Business

CHARACTERISTICS	SAMPLE	
	N	%
Choose your type of business		
4 star	41	40,6
5 star	60	59,4
Total	101	100
How many people are working in your business	N	%
1-50	32	31,7
51-100	9	8,9
101-150	16	15,8
151-200	16	15,8
201 and over	28	27,7
Total	101	100
What is the number of rooms in your business	N	%
100 and below	24	23,7
101-200	31	30,6
201-300	15	14,8
301 and over	31	30,6
Total	101	100
What is the average number of customers that stay in your business in 2009?	N	%
0-10000	16	15,8
10001-20000	23	22,7
20001-30000	26	25,7
30001-40000	15	14,8
40001 and over	21	20,7
Total	101	100
How was the economic condition in terms of your business in 2009	N	%
Very good	10	9,9
Good	43	42,5
Break-Even	31	30,6
Bad	15	14,8
Very bad	2	1,9
Total	101	100
What do you think about that; how will be the economic condition in terms of your business in 2010?	N	%
Very good	15	14,8
Good	55	54,4
Break-Even	26	25,7
Bad	5	4,9

Very bad	0	0
Total	101	100
Have you ever encountered economic crisis situation in your business before?	N	%
Yes	62	61,4
No	39	38,6
Total	101	100
Have the crisis management policies been carried out for Turkish tourism sector in 2009 successfully?	N	%
Yes	21	20,8
Partly	58	57,4
No	22	21,8
Total	101	100
Has the economic recovery process started in Turkish tourism sector so far?	N	%
Yes	28	27,7
Partly	62	61,5
No	11	10,8
Total	101	100
What was the average occupancy rate of your business in 2009	N	%
40% and below	9	8,9
41-50 %	17	16,8
51-60%	25	24,7
61-70%	20	19,8
71-80%	24	23,7
81% and over	6	5,9
Total	101	100
What is the expected average occupancy rate of your business for 2010	N	%
40% and below	3	2,9
41-50 %	15	14,8
51-60%	17	16,8
61-70%	24	23,7
71-80%	27	26,7
81% and over	15	14,8
Total	101	100
If your service production had decrease, to what extent has this decrease been?	N	%
Less than 10%	49	48,5
10-19%	28	27,7
20-29%	12	11,8
30-39%	5	4,9
40-49%	4	3,9
More than 50%	3	2,9
Total	101	100
If your employment was decreased, to what extent has this decrease would be?	N	%
Less than 10%	65	64,3
10-19%	28	27,7
20-29%	5	4,9
30-39%	3	2,9
Total	101	100

Do you have a shortage in financing?	N	%
Yes	38	37,6
No	63	62,4
Total	101	100
Did you invest in tourism in 2009	N	%
We did not invest	41	40,5
We bought business	12	11,88
We invested in the modernization	22	21,7
We invested abroad	6	5,9
We entered to a new investment	16	15,8
Other	4	3,9
Total	101	100
Do you want to increase capacity or invest in tourism for 2010	N	%
Yes. We want to invest in domestic	54	53,4
Yes. We want to invest in abroad	16	15,8
No.	31	30,6
Total	101	100
How was the change of your costs in 2009?	N	%
Increased	22	21,8
Unchanged	57	56,4
Decreased	22	21,8
Total	101	100

* Educational Background * Improving the quality of service reduces the impact of economic crisis.	65,861 ^a	0,000
* Educational Background * Crisis management team to establish a business to get through the crisis with the least damage to provide.	30,646 ^a	0,002
* Educational Background * Turkey's own tour operator to build the system, the economic crisis to recession by reducing demand in the tourist, can improve competitiveness in the international arena.	33,077 ^a	0,001
* Educational Background * In the state's economic crisis is taking a different markets promotional campaign to increase payments to positively affect tourist demand.	65,862 ^a	0,000
* Educational Background * During the economic crisis, increasing the incentives given to investors, the economic crisis by reducing the impact of the tourism industry of our country, increase the competitiveness of other competing destinations.	19,819 ^a	0,019
* Educational Background * During the economic crisis, tourism, tourist demand for the removal of tax increases to reduce the impact of economic crisis.	41,875 ^a	0,000
* Educational Background * Alternative tourism by developing tourist destinations spread over 12 months reduces the effect of strengthening the economic crisis.	66,539 ^a	0,000
* Educational Background * Against possible economic crisis in the tourism industry faced anti-crisis management plans to make our country a significant competitive advantage against competing destinations.	45,846 ^a	0,000
* Educational Background * Turkish tour operators to support the state in the medium term by increasing the demand for international tourism, especially to minimize the negative effects of the global financial crisis could.	77,829 ^a	0,000
* Educational Background * Accommodation businesses to be able to overcome the economic crisis without damaging the support SMEs need to be evaluated in the category.	56,133 ^a	0,000

* Total Working Period in Tourism Industry * To increase domestic tourism demand, global economic crisis by minimizing the effects of demand contraction to reduce working capital needs.	66,505 ^a	0,000
* Total Working Period in Tourism Industry * Advertising and promotional campaign to increase domestic tourism, can be applied in times of economic crisis is a crisis management strategy.	41,916 ^a	0,000
* Total Working Period in Tourism Industry * The use of different promotional and sales techniques, can be applied in times of economic crisis is a crisis management strategy.	74,329 ^a	0,000
* Total Working Period in Tourism Industry * Resources and reduction of operating costs, applicable in times of financial crisis is a crisis management strategy.	54,526 ^a	0,000
* Total Working Period in Tourism Industry * Go to the integration of another business, that can be applied in times of economic crisis is a crisis management strategy.	49,388 ^a	0,000
* Total Working Period in Tourism Industry(Year) * To postpone payments or to extend the maturity of loans, can be applied in times of economic crisis is a crisis management strategy.	100,705 ^a	0,000
* Total Working Period in Tourism Industry(Year) * Staff removal that can be applied in times of economic crisis is a crisis management strategy.	59,182 ^a	0,000
* Total Working Period in Tourism Industry(Year) * Price reductions, can be applied in times of economic crisis is a crisis management strategy.	70,487 ^a	0,000

In our work we have done 27 of 32 Chi-square test at 5% significance level between the variables showing a significant difference. Indeed, as shown in Table 3 Chi-square test Asymp Sig. value is less than 5%, a significant relationship between variables that represent. Table 3 gave only positive results to the Chi-square test results are given.

Table 3: Chi-Square Test Results

PROPERTIES	Value	Asymp. Sig.
* Type of Business * In Turkey, an effective crisis management strategy or strategies businesses are affected by the crisis in a way that result in directly and are vulnerable.	20,793 ^a	0,000
* Type of Business * Cooperation between public and private sectors, the economic crisis on the sector, reduces the devastating effects.	12,395 ^a	0,015
* Type of Business * The marketing of destinations as well makes the difference, in economic crisis, businesses can increase their foreign exchange income.	13,254 ^a	0,010
* Type of Business * In economic crisis, businesses, lowering the cost of the tourist destinations in the works will increase demand.	24,592 ^a	0,000
* Type of Business * Cheap mass tourism in economic crisis for the marketing efforts of businesses enterprises are increasing their cash flow.	11,228 ^a	0,024

* Type of Business * Businesses to reduce their prices, reducing the impact of economic crisis, tourism demand is increasing.	17,315 ^a	0,002
* Educational Background * Political tensions led to shrinking demand is increasing because of the impact of economic crisis.	25,552 ^a	0,012

* Total Working Period in Tourism Industry(Year) * Organizational downsizing, can be applied in times of economic crisis is a crisis management strategy.	55,845 ^a	0,000
* Total Working Period in Tourism Industry(Year) * Presentation of the budget increase, can be applied in times of economic crisis is a crisis management strategy.	29,399 ^a	0,021

CONCLUSIONS AND RECOMMENDATIONS

Tourism, economic crisis even the smallest businesses in this industry over the destructive effects of a sector that is too large. For this reason, crisis management in tourism industry especially has great importance. In our country, both in state and enterprises, but should work based on crisis management are not given required importance. In this direction, firstly at the macro level by the state and in the micro level the tourism enterprises by the potential economic crisis due to demand contraction preventing aimed at long-term and continuous review to be crisis-management strategies should be developed, it is important in establishing the crisis management team and making anti-crisis management plans against faced possible economic crisis.

The state takes major roles to overcome country's economic crisis with the least damage. In this context, different markets promotional activities devoted to the appropriation to increase, investors given incentives to increase tourism tax to eliminate or at least to the level of, loans payments is delayed, or the maturity to extend the state's Turkish tour operators to support Turkey's own tour operating system installation, accommodation enterprises SME categories are supported by the assessment, is considered as a vital strategy. As known, in times of economic crisis, the country's external current account deficit is close to the exchange rate in terms of tourism, the need is increasing and at this point that could bring foreign currency into the country among the most important business is located. Therefore, except in times of financial crisis to increase demand for tourism marketing strategies is vital.

For example cheap mass tourism marketing efforts can be made, Premier of price decrease of service quality and increasing the alternative tourism by developing tourism, the 12 month spread a destination distinctive side marketing and accordingly different advertising and sales techniques used for this purpose can be applied important strategies, were considered.

Foreign tourist demand, especially in times of global economic crisis caused by narrowing of the income loss, to improve domestic tourism demand can be prevented through the implementation of strategies. For example, in advertising and promotional campaign to increase tourism in this context can be seen as an important marketing strategy. Accommodation businesses also profit from the economic crisis, reduced to prevent the most effective way to indent one, to reduce the cost of resources and activities. Search strategies can be applied for this purpose in the organizational downsizing, businesses to provide significant cost advantages in this point it has great importance.

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THE GLOBAL RECESSION EXPERIENCED AFTER THE RECENT FINANCIAL CRISIS AND ITS EFFECTS TO THE TURKISH ECONOMY

Engin ERDOĞAN

Meliha ENER

Feyza ARICA

Murat GÜVEN

Canakkale Onsekiz Mart University, Turkey

ABSTRACT

After recent global economic crisis, some precautions were applied to overcome the crisis. Expansionary monetary and fiscal policies were applied to decrease the heavy effects of the crisis. Although optimistic belief has occurred in direction of the crisis ended since 2009 year, presence of stagnation dominated in the world economy. Beyond the signs of stagnation, serious measures were taken against the recession in United States and European countries.

After the global economic crisis, tendency of dwindling in general occurred in the world economy. In this process macro economic targets were based on increasing production and employment instead of providing economic stabilization. In that way economic growth was aimed.

Global recession has created negative impacts on mainly production concerning consumption, employment and investment.

This paper analyzes the long-run relation between investment level and unemployment level over the period 1985-2008 for 19 OECD countries including Turkey by using panel analysis techniques. Firstly, we test Breusch and Pagan (1980)'s cross-section LM testing to investigate whether unemployment level and investment level have cross-section dependency. According to obtained findings, we decide to use panel unit root tests. After determined to panel unit root test to be used, it is focused on the long-run relation between investment rate and unemployment rate. Kao Residual Test, Pedroni Residual Test and Johansen-Fisher Panel Cointegration Tests is used in this study. In terms of the presence of relation which is obtained, some inferences will be made belonging to future.

Key Words: *Global Economic Crisis, Global Recession, Panel analysis*

INTRODUCTION

In this study, firstly it is assessed occurrence of the crisis that began in last quarter of 2008 in USA housing market. Later it was focused on measures taken by Southern Europe Welfare States which are Turkey, Spain, Portugal, Italy and Greece over the period after crisis.

The crisis raised the uncertainty in world economy and caused unsteadiness at first financial markets later real markets. The crisis that started in the finance markets has taken the reel markets under effect with time. The recession started in developed countries has affected the developing countries which are already in critical levels. While the global developments were regressing, the countries were in consensus to take precautions together to struggle with the crisis in the world economy.

Turkey was affected from the crisis as many other developing and developed countries had been affected. We will firstly deal with the appearance and enlargement process of the crisis in the world, before we evaluate the effects of the crisis on Turkey. In this process Turkey took the packages as many other countries applied attention.

Global recession in Turkey created negative impacts on mainly production concerning consumption, employment and investment. After the crisis, because of the recession and of TL's excessive valuableness in the amount of the speculative foreign capital income decreased, therefore total demand reduced and a big fall in importation was seen.

1. THE GLOBAL CRISIS AND ITS EFFECTS ON INVESTMENT AND UNEMPLOYMENT IN USA AND SOUTHERN EUROPE WELFARE STATES

According to Fink (1986); Kash and Darling (1998), a crisis is referred to as an unplanned event emerging from the internal or external environment of an organization or country which can disrupt operations, threaten people physically and mentally, endanger the viability of entities no longer able to cope with the situation using normal managerial procedures.

The current global crisis originated in the USA financial market. Since this is the centre of a network that interlinks the national financial systems of almost all countries in the world, the crisis was spread very quickly.

According to Mishkin (2008), the current global financial crisis has many aspects in common with past global financial crises that have occurred throughout history. The current financial crisis has had three fundamental factors as in many previous crises. The first one is mismanagement of financial innovation, second one is an asset price bubble that burst, and third one is deterioration of financial institution balance sheets.

World-shaking events market capitalism quietly and shifted much of the discredited central planning that was so dominant in the Third World. China which is a large segment of the erstwhile Third World replicated the wonderful economic export-oriented model and this so-called model is Asian Tigers. Besides this, thanks to China fairly well educated, low-cost workforces were joined with developed-world technology. It was protected by an increasing rule of law, so as to release explosive economic growth. So real GDP growth of the developing world has been more than double since 2000.

Along with surge in competitive and low-priced exports from developing countries, particularly those to Europe and the U.S. flattened labor compensation in developed countries, and attenuated the rate of inflation expectations throughout the world by including those inflation expectations embedded in global long-term interest rates. Furthermore, there has been a significant decrease in global real interest rates which affect the all financial markets since beginning of the 1990. So this indicated that global saving intentions constantly had exceeded intentions to invest. Rate of consumption clearly could not keep up with the surge of income in the developing world and as a result, savings rate of the developed world increased from 24% of nominal GDP in 1999 to 33% in 2006 and the savings rate of the developed world went faster than its investment rate (Greenspan, 2007).

The subprime mortgage market underwent explosive growth between 2001 and 2006 years. All investors in order to get higher yields kept increasing their demand for private-label mortgage-backed securities (hereafter MBS), which also caused sharp increases in the subprime share of the mortgage market (from around 8 percent in 2001 to 20 percent in 2006) and in the securitized share of the subprime mortgage market (from 54 percent in 2001 to 75 percent in 2006). According to Apak and Aytaç (2009), unreal financial system created by securitization and insurance transactions reached 120 trillion dollars and 15-18 trillion dollars of its was generated by USA economy. This dramatic growth of the subprime mortgage market and quality of the market became worse dramatically (Demyanyk and Hemert, 2008).

The fundamental factor creating the subprime mortgage crisis was the boom and bust cycle in housing prices. During the boom phase, rising prices encouraged lenders and investors to put ever more money at risk. The Credit Rating Agencies supported these investment decisions by posting ratings that undervalued the impact that falling house prices could have on subprime mortgage defaults. Second factor that pronounced broadened the impact of the subprime crisis was behavior of institutional investors to become intense the riskiness of their subprime MBS portfolios by means of extremely high leverage and by means of extreme maturity mismatches in their funding. This strategy for investment will unfortunately be crisis-prone independent of the underlying securities now we can give two examples in order to confirm this. First one is

that the U.S. Savings and Loan crisis of the 1980s arose from leveraged and maturity mismatched portfolios, although the underlying securities were prime mortgages with minor default risk. Second one is that the Long Term Capital Management crisis also arose from a leveraged and maturity mismatched portfolio, even though U.S. treasury bonds were a primary instrument (Jaffe, 2008).

Now that we focus on the economy particularly investment-unemployment structure of the some countries, Italy, Portugal, Greece and Spain, called Southern European Welfare Countries, were effected from crisis that have impacted all over the world.

Investments have gained importance over the past decade as the tool for accelerating growth and development of economies in transition. Many developing countries do not receive sufficient international investment because weak domestic policy frameworks discourage both foreign and domestic investment. This insufficiency has reached serious dimension due to the experienced global economic crisis.

Worldwide Foreign Direct Investment (FDI) flows have showed an impressive upward trend over the past two decades, which prompted the expansion of international production and the economies' globalization process (Santis and Vicarelli, 2007).

In 2008, according to the provisional data, published by UNCTAD, worldwide FDI fell 14,5% to 1,66 trillion dollars, due to the negative effects of the global financial crisis which has currently gripped economies. Due to global recession, the drop in company profits, the pessimistic prospects of the world economic growth in future, the diminution occurred in workforces, the decline in capital spending, all of which lead to a decrease in FDI (Invest in Spain, 2009).

When we examine economic situation of Spain, we see that residential construction is slowing sharply towards a level which is sustainable in the long run investors and consumers are also adjusting strongly to a marked deterioration in financial conditions in the wake of the international financial crisis, as well as to deteriorating job prospects (Economic Survey of Spain, 2008). According to the projection output may fall by 3½ per cent in 2009 and by a further ¼ per cent in 2010 before recovering at a slow rate in 2011. It is expected that the unemployment rate may peak close to 20% in 2010. Spain is one of the leading global economic powers: the 4th largest recipient of FDI among developed countries (World Investment Report, 2009).

FDI inflows to Spain increased sharply during 1980's as a result of entry into the European Economic Community. In 1994 the rate of investment inflows began to decline gradually, but recovered in 2000 in Spain. Six years following 2000 year saw a decline in FDI inflows. 2007 saw a sharp turn around of investment flows to Spain an increase. Gross foreign direct investment in Spain in 2008, according to the Ministry of Industry rose to 37,715 billion Euros, 0,4% more than the previous year. Net foreign direct investment reached to 34,543 billion Euros, 26,7% higher than in 2007. Specifically, disinvestment in 2008 decreased by 69,5%, reaching 3,113 billion Euros, in contrast to 10,196 billion Euros in the previous year (Invest in Spain, 2009).

Another Southern European Welfare Country, Greece has been deep impact of financial crisis which shook the confidence of households and businesses, which are reining in spending. Moreover, persistent structural imbalances, which are illustrated by the poor state of public finances and the large current account deficit, limit room for policy manoeuvre, and the country's vulnerability to the crisis increased because of Greece's exposure to South-Eastern Europe (Economic Survey of Greece, 2009). Since the effects of the global crisis gradually spread to the Greek economy, real GDP of Greece contracted in 2009. According to the OECD report, the present progress in the external environment should help activity to pick up slowly, and growth could accelerate in 2011. Furthermore, in the report it was seen that gross fixed capital formation of Greece was 4.6, -7.4, and -15.5 respectively 2007, 2008, 2009 years. According to the OECD's expectation for 2010 year and 2011 year, gross fixed capital formation will be -6,3 and 4,6 respectively in Greece. Despite the global financial crisis, FDI inflows in Greece registered a serious increase in 2008. According to Bank of Greece data, gross inflows of funds from foreign investors reached 6.48 million Euro, while net inflows reached 3.46 million Euro (www.investingreece.gov.gr).

When we look at unemployment rate of Greece, we see that it will be an increase in 2010. In 2010 this figure is expected to be 10,4% while unemployment rate of Greece was 9,3% in 2009. It is also expected to be 10,4% in 2011 years (Economic Survey of Greece, 2009).

Another Southern European Welfare Country, Portugal kept growing in the second quarter of 2009, but according to the OECD report, this growth will remain subdued as private sector deleveraging constrains the recovery. Thus, unemployment isn't unlikely to increase to around 10% in 2010 (Economic Outlook no: 86 Portugal, 2009). Portugal received significant foreign direct investment in the past decade. EU Member States are the main sources of FDI, particularly Spain, Germany, the United Kingdom and France. In the OECD's report, it was seen that gross fixed capital formation of Portugal was 3.1, -0.7, -13.6 respectively 2007, 2008, 2009 years. According to the OECD's expectation for 2010 year and 2011 year, gross fixed capital formation will be 0.4 and 2.9 respectively in Portugal. When we look at unemployment data of Portugal, we see that it was 9.2% in 2009 year. This figure will be reached to 10.1% by increasing at 9,7% in 2010.

According to the OECD report, although the recession started earlier in Italy then elsewhere, activity rebounded in the third quarter. With improved financial conditions, confidence has been rebuilt and domestic demand has been reinforced. Italian banks are exposed to low-risk products than those of other large countries, as originators but also as investors. The reason for this is partly in consequence of their conservative behavior and also of some regulatory and supervisory caution so banks have not closed or had not to be bailed out (Economic survey of Italy, 2009). In spite of some falls in wage costs, higher unit labor costs along with oil price upturn will keep within bounds the decline in inflation, while unemployment rises somewhat further. Italy was given high public debt but did not present a large – scale fiscal stimulus. The budget deficit, however, along with periodically weak revenues proceeds 5% of GDP and debt is expected to increase to 120% of GDP by 2011. Because of growth's picking up, significant fiscal consolidation efforts will be required from 2011 onwards (Economic Outlook no: 86 Italy, 2009).

When we look into the case of FDI of Italy, we can say that Italy is one of the most important countries in the world regarding FDI attraction. The privatization program led by the country and liberalization of the energy and telecommunications markets which offer interesting opportunities to investors, all of which lead to an increase in FDI of Italy. However, the foreign investment flow has slowed down in recent years and is expected to continue to decline over the next years due to the global financial crisis (<http://www.egypt-import-export.com/en/country-profiles/italy/investing>). FDI of Italy grew to \$19,6 billion in 2005 and reached \$39,2 billion in 2006. With this development, according to A.T. Kearney's 2007 Confidence Index, Italy was 5th largest recipient country of FDI in Europe <http://www.obeliskinvestmentproperty.com/Italy>. Gross fixed investment of Italy as percentage change from previous year was -12,6 in 2009. This figure is expected to be 0,6 and 4,0 respectively in 2010 and 2011 year (Economic Outlook no: 86 Italy, 2009).

2. THE EFFECTS OF THE CRISIS ON INVESTMENT AND UNEMPLOYMENT IN TURKISH ECONOMY

Labor is one of the most employed factors by obtaining the economic indicators. According to Doğan (1998) gross national product (GNP) of countries depends upon both employment and efficiency of labor factor. Labor is most important factor within GNP. Because the other production factors can not make any economic activity without labor factor during realization production. An increase at a rate of employment in developing countries such as Turkey provides economic growth. Because income enhances due to increase at a rate of investment. Increasing income raises consumption expenditures. Individuals due to increasing in their consumption expenditure firms also due to their increasing income pay too much tax. Because of this enlargement government getting more taxes makes an investment in the field of education, security, justice and medical. This provides economic growth. Key of economics growth is increase at not only a rate of employment but also investment.

Foreign direct investment is one of the most important ways in order to acquire advanced technology in developing countries. Foreign direct investments have serious impact in the process of advancement in the field of technology in developing countries. According to Findlay (1978) foreign direct investments increase rate of technologic advancement. This is supplied with the effect of advance technology which firms uses and management practice. According to Wang (1990) an increase in the level of knowledge which used in production is a function of direct foreign investments.

Lipsey and Kravis (1987) argue that the long-run relation exists between capital formation and growth rate providing efficiency use of investment by encouraging capital formation to occur next periods is support point of economy.

Table 1: Capital Movements Over 1980-2004 Period in Turkey

Year	Total Capital Movements (net)	Direct Investments	Portfolio Investments	Long-run Capital Movements	Short-run Capital Movements
1980	672	18	0	656	-2
1981	899	95	0	683	121
1982	280	55	0	127	98
1983	883	46	0	39	798
1984	73	113	0	612	-652
1985	1065	99	0	-513	1479
1986	2124	125	146	1041	812
1987	1891	106	282	1453	50
1988	-958	354	1178	-209	-2281
1989	780	663	1386	-685	-584
1990	4037	700	547	-210	3000
1991	-2397	783	623	-783	-3020
1992	3648	779	2411	-938	1396
1993	8903	622	3917	1370	2994
1994	-4257	559	1158	-784	-5190
1995	4565	772	237	-95	3635
1996	5483	612	570	1636	2665
1997	6969	554	1634	4788	-9
1998	-840	573	-6711	3985	1313
1999	4935	138	3429	344	1024
2000	9610	112	1022	4276	4200
2001	-13882	2769	-4515	-1130	-11006
2002	2490	863	-555	2315	-133
2003	6363	1195	2565	-956	3559
2004	22660	1711	8070	6121	6758

Source: TCMB, www.tcmb.gov.tr

Table 1 shows capital movements over 1980-2004 periods in Turkish economy. According to Table 1, there had been increases in capital inflow except during the years those are consider as the Turkish economy in recession between 1980-2004. It seemed that there were increases at a rate of portfolio investment, long run capital movements and short run capital movements but there were serious decreases in crisis years.

Table 2: Domestic Savings and Fixed Capital Investments

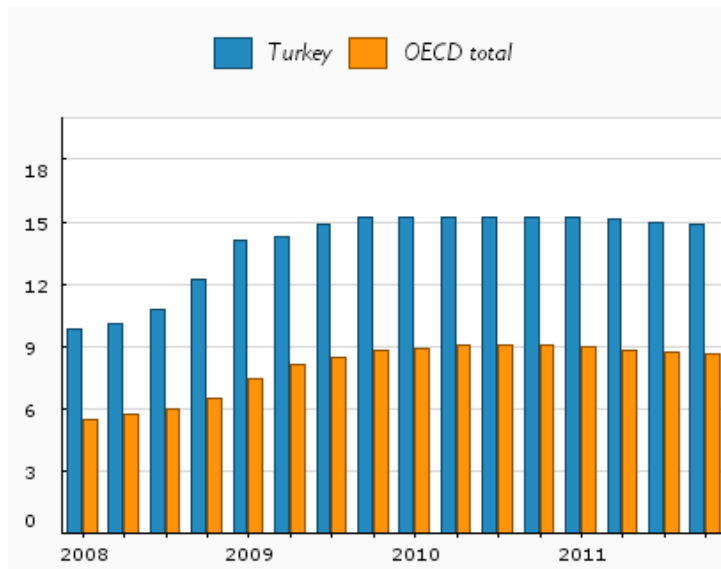
Year	Domestic Savings	Fixed Capital Investments
1980	16,0	21,8
1981	18,3	19,8
1982	17,1	19,2
1983	16,5	20,1
1984	16,5	19,3
1985	18,9	20,1
1986	21,9	22,8
1987	23,9	24,6
1988	27,2	26,1
1989	22,1	22,5

1990	22,0	22,6
1991	21,4	23,7
1992	21,6	23,4
1993	22,7	26,3
1994	23,1	24,5
1995	22,1	24,0
1996	19,9	25,1
1997	21,3	26,3
1998	22,7	24,3
1999	21,2	22,1
2000	18,2	22,8
2001	17,5	19,0
2002	19,2	17,3
2003	19,3	16,1
2004	20,2	18,4

Source: DPT, www.dpt.gov.tr

Table 2 shows relation between domestic savings and fixed capital investments. According to Table 2, when domestic savings' rate fell, fix capital investment also fell and vice versa.

Graph 1: Unemployment Rates



Source: OECD, www.oecd.org

Graph 1 shows us an ability to compare unemployment rate between Turkey and OECD countries. According to OECD's prediction for years 2010 and 2011, unemployment rate for both Turkey and OECD countries will increase. But this increase has reached stable position since last quarter of 2009

Table: 3 Gross Fixed Capital Formation and Unemployment Rates, 2005-2008

	2005	2006	2007	2008
Gross Fixed Capital Formation	20	22,1	21,600	21,500
Unemployment Rates: Total	10,2	9,9	9,8	11

Source: OECD, www.oecd.org

Table 3 shows data of unemployment rates and gross fixed capital investment over period 2005-2008. Because of current economic crisis, fixed capital investment has decreased and unemployment rate has increased.

According to the TÜİK study, a total of 3,471,000 people were unemployed in 2009, which means an increase of 860,000 people compared to the previous year. The unemployment rate rose by three percentage points to 14 percent.

Table 4: Turkey: Demand, Output and Prices

		2007	2008	2009	2010	2011	
	2006						
	Current prices TRL billion		Percentage changes, volume (1998 prices)				
Private consumption	534,8	5,5	-0,1	-3,3	2,7	4,6	
Government consumption	93,5	6,5	1,9	1,6	1,7	5,0	
Gross fixed capital formation	169,0	3,1	-5,0	-21,3	4,1	9,7	
Final domestic demand	797,4	5,1	-0,8	-6,2	2,8	5,5	
Stockbuilding¹	- 1,8	0,6	0,3	-2,8	2,5	0,0	
Total domestic demand	795,6	5,7	-0,6	-8,8	5,3	5,6	
Exports of goods and services	171,9	7,3	2,3	-7,5	4,5	8,8	
Imports of goods and services	209,2	10,7	-3,8	-19,2	8,7	12,8	
Net exports¹	- 37,2	-1,3	1,5	3,6	-1,0	-1,0	
GDP at market prices	758,4	4,7	0,9	-6,5	3,7	4,6	
	–	6,2	11,7	6,5	5,5	5,6	
Consumer price index	–	8,8	10,4	6,3	5,7	5,3	
Private consumption deflator	–	6,6	10,3	5,6	5,6	5,4	
Unemployment rate	–	10,1	10,7	14,6	15,2	15,0	
Current account balance²	–	-5,9	-5,5	-1,9	-2,8	-3,3	

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity

between real demand components and GDP. For further details see *OECD Economic Outlook Sources*

and Methods (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first

column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 86 database.

According to the Table 4 fixed capital investment decreased in the ratio of 5% compared to previous year. This decrease reached to -21, 3% by keeping declining. At the same period unemployment rate reached to 14, 6% with an increase in the ratio of 36% in terms of previous year in 2009.

3. EMPIRICAL METHODOLOGY and RESULTS

We use to panel data analysis in this study. A longitudinal, or panel data set is one that follows a given sample of individuals over time, and thus provides multiple observations on each individual in the sample (Hsiao, 2003). Hsiao (2003) and Klevmarken (1989) list several benefits from using panel data. Some of these include the following:

- 1) Controlling for individual heterogeneity.
- 2) Panel data give more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency.
- 3) Panel data are better able to identify and measure effects that are simply not detectable in pure cross-section or pure time-series data.
- 4) Panel data models allow us to construct and test more complicated behavioral models than purely cross-section or time-series data.

Our central interest lies on testing whether the co-integration relation exists between unemployment level and the gross fixed capital formation (investment). The annual data covering the period of 1985-2008 for 19 OECD countries is used for empirical analysis. The countries consist of Turkey, Austria, Australia, Canada, Denmark, Finland, Germany, Greece, Ireland, Italy, Japan, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States. We obtain both unemployment level (UN) and Gross Fixed Capital Formation (GFCF) used as investment rate obtained from OECD database.

Primarily, it is necessary to determine whether the variables used in the study have cross-section dependency or not. We used Breusch and Pagan (1980)'s cross-section LM testing in order to investigate the presence of cross section dependency between the variables used. Since number of cross-section observation is smaller number of time series observation in our model, it is take into accounted CDLM1 test of Pesaran (2004). CDLM1 test statistic is following as:

$$CDLM1 = T \cdot \sum_{i=1}^{N-1} \sum_{j=i+1}^N \hat{\rho}_{ij}^2 : \chi_{N \cdot (N-1)/2}^2 \text{ where } \hat{\rho}_{ij} \text{ is correlation of coefficient across residuals obtained}$$

from each regression estimated by OLS estimator. As can be seen from Table 5, we can not reject to the none of cross-section dependency between GFCF and UN variables since the probability values of all CDLM test statistics are bigger than at 0,05 significance level. Hence, we use first generation panel unit root test instead of second generation panel unit root test considering cross section dependency.

Table 5: Results of Breusch and Pagan LM Testing

Test stat	t-stat	p-value
CD _{LM1}	183,390	0,244
CD _{LM2}	0,669	0,251
CD _{LM}	-0,829	0,203

After determined the none of cross-section dependency, it is necessary to determine if the variables used in the study are stationary or not. Therefore in the study Im, Pesaran and Shin (2003) (hereafter IPS), Fisher-type test proposed first by Maddala and Wu (1999) (hereafter MW) then developed by Choi (2001), Levin, Lin and Chu (2002) (hereafter LLC), Hadri (2000)'s tests are performed as first generation tests. In general, type of panel unit root tests is based on the following regression:

$$\Delta Y_{i,t} = \beta_i \cdot Y_{i,t-1} + Z_{i,t} \cdot \gamma + u_{i,t} \quad (1)$$

where $i = 1, 2, \dots, N$ is individual, for each individual

$T = 1, 2, \dots, T$ time series observations are available, $Z_{i,t}$ is deterministic component and $u_{i,t}$ is error term.

The null hypothesis of this type is $\rho_i = 0$ for \forall_i . The first of first generation panel unit root tests is Levin, Lin and Chu (2002) (LLC thereafter) that allow for heterogeneity of individual deterministic effects and heterogeneous serial correlation structure of the error terms assuming homogeneous first order autoregressive parameters. They assume that both N and T tend to infinity but T increase at a faster rate, so $N/T \rightarrow 0$. They assume that each individual time series contains a unit root against the alternative hypothesis that each time series stationary. Thus, referring to the model (1), LLC assume homogeneous autoregressive coefficients between individual, i.e. $\beta_i = \beta$ for all i , and test the null hypothesis $H_0 : \beta_i = \beta = 0$ against the alternative $H_A : \beta_i = \beta \neq 0$ for all i . The structure of the LLC analysis may be specified as follows:

$$\Delta Y_{i,t} = \alpha_i + \beta_i \cdot Y_{i,t-1} + \delta_i \cdot \tau + \sum_{j=1}^{p_i} \phi_{ij} \cdot \Delta Y_{i,t-j} + u_{it} \quad i = 1, \dots, N \quad t = 1, \dots, T \quad (2)$$

where τ is trend, α_i is individual effects, $u_{i,t}$ is assumed to be independently distributed across individuals. LLC estimate to this regression using pooled OLS. In this regression deterministic components are an important source of heterogeneity since the coefficient of the lagged dependent variable is restricted to be homogeneous across all units in the panel (Barbieri, 2006). Other test, Im, Pesaran and Shin (2003) test allows for residual serial correlation and heterogeneity of the dynamics and error variances across units. Hypothesis of IPS may be specified as follows:

$$H_0 : \beta_i = \beta = 0 \quad H_A : \beta_i \neq 0 \quad \text{for all } i$$

The alternative hypothesis allows that for some (but not all) of individuals series to have unit roots. IPS compute separate unit root tests for the N cross-section units. IPS define their t -bar statistics as a simple average of the individual ADF statistics, t_i , for the null as: $\bar{t} = \sum_{i=1}^N t_i / N$

It is assumed that t_i are i.i.d and have finite mean and variance and $E(t_i)$, $\text{Var}(t_i)$ is computed using Monte-Carlo simulation technique. Other test Maddala and Wu (1999) consider deficiency of both the LLC and IPS frameworks and offer an alternative testing strategy (Barbieri, 2006). MW is based on a combination of the p-values of the test statistics for a unit root in each cross-sectional unit.

Hadri (2000) test permits an easy formulation for a residual based LM test of stationary. Hadri adopts the following components representation:

$$Y_{it} = Z'_{it} \cdot \gamma + r_{it} + \varepsilon_{it}$$

where Z_{it} is deterministic component, r_{it} is a random walk:

$$r_{it} = r_{i,t-1} + u_{it}$$

where $u_{it} : iid(0, \sigma_u^2)$ and $\varepsilon_{i,t}$ is stationary process. Hypothesis of Hadri test is different from other first generation tests. The null of hypothesis of trend stationary corresponds to the hypothesis that the random walk equals zero. Further, this test allows the disturbance terms to be heteroscedastic across i . The results of unit root tests for UN and GFCF variables are summarized in Table 6 and Table 7.

Table 6: First Generation Unit Root Tests for UN

First Generation Tests	Test-statistic	Prob. Value
LLC	-1,85 (-6,71)	0,03 (0,00)
IPS	-1,42 (-8,11)	0,07 (0,00)
ADF-Fisher	48,16 (135,96)	0,12 (0,00)
PP-Fisher	26,53 (106,79)	0,91 (0,00)
Hadri Z-stat.	7,21 (-0,52)	0,00 (0,69)

First difference of UN in parentheses.

Table 7: First Generation Unit Root Tests for GFCF

First Generation Tests	Test-statistic	Prob. Value
LLC	7,10 (-5,62)	1,00 (0,00)
IPS	8,98 (-7,36)	1,00 (0,00)
ADF-Fisher	7,26 (123,8)	1,00 (0,00)
PP-Fisher	9,65 (153,1)	1,00 (0,00)
Hadri Z-stat.	13,47 (0,36)	0,00 (0,00)

First difference of GFCF in parentheses.

As can be seen from Table 6 and Table 7, both UN and GFCF with individual intercept are nonstationary variables 1% and 5% significance levels. When we look first differences of used variables, we say that these variables are stationary at first difference is called difference stationary.

If the presence of a unit root is detected in the variables, then it is necessary to check for the presence of a cointegrating relationship among the variables. There are two types of panel cointegration tests in the literature. The first is similar to the Engle and Granger (1987) framework which includes testing the stationarity of the residuals from a levels regression. The second panel cointegration test is based on multivariate cointegration technique proposed by Johansen (1988).

Pedroni (1999, 2004) and Kao (1999) extend the Engle-Granger (1987) cointegration test. Kao(1999) presents DF and ADF type tests for the null hypothesis of no cointegration in panel data. Kao considers the special case where cointegration vectors are homogeneous between individuals. Thus the test don't allow for heterogeneity under alternative hypothesis. The DF type test from Kao follows the following model:

$$Y_{it} = \alpha_i + \beta \cdot X_{it} + \varepsilon_{i,t} \quad \text{where } i=1, \dots, N \text{ and } t=1, \dots, T. \quad (3)$$

Both Y_{it} and X_{it} are random walks. It follows that under the null hypothesis of no cointegration, the residual series, $\varepsilon_{i,t}$, should be nonstationary. The ADF type test from Kao is based on the estimated residuals of the

following equation: $\hat{\varepsilon}_{i,t} = \rho \cdot \hat{\varepsilon}_{i,t-1} + \sum_{j=1}^p \varphi_j \Delta \hat{\varepsilon}_{i,t-j} + v_{it}$ where $\hat{\varepsilon}_{i,t}$ is the estimated residual of equation (3) and p denotes number of the lags in ADF specification. To test whether Y_{it} and X_{it} are cointegrated based on DF or ADF test statistics, the null and the alternative hypotheses can be written as $H_0 : \rho = 1, H_A : \rho < 1$ respectively.

Pedroni (1999,2004) proposes a residual-based test for the null of cointegration for dynamic panels with multiple regressors in which the short run dynamics and the long run slope coefficients are permitted to be heterogeneous across individuals. The test allows for individual heterogeneous fixed effects and trend terms. Pedroni considers the use of seven residual-based panel cointegration statistics, four based on pooling the data along the within-dimension and three based on pooling along the between-dimension.

Johansen Fisher panel cointegration test combines individual Johansen's cointegration trace tests and maximum eigen value tests. In Johansen's multivariate cointegration technique, trace statistic tests for at most r cointegrating vectors among a system of $N > r$ time series, and the maximal eigen value statistic tests for exactly r cointegrating vectors against the alternative hypothesis of $r+1$ cointegrating vectors.

Johansen Fisher Panel Cointegration technique has an advantage when compared with Pedroni and Kao Panel Cointegration tests. It relaxes the assumption of a one cointegrating vector among the variables.

Table 8, Table 9 and Table 10 show results obtained from various panel cointegration tests. Table 8 shows results obtained from Kao Cointegration Test. Lag is selected automatically 2 lags by AIC with a max lag of 8. We reject to the null of hypothesis of no cointegration relation between used variables at 5% significance level.

Table 8: Kao Residual Cointegration Test

	t-Statistic	Prob.
ADF	-2.217138	0.0133
Residual variance	4.96E+10	
HAC variance	7.23E+10	

Table 9 shows results obtained from Pedroni Cointegration Test for without trend model. It is reject to the null of hypothesis of no cointegration relation between used variables at 5% significance level in terms of Panel v-statistics and Panel ADF-statistics.

Table 9: Pedroni Residual Cointegration Test

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	3.797805	0.0001*	1.097118	0.1363
Panel rho-Statistic	-1.035422	0.1502	-0.035304	0.4859
Panel PP-Statistic	-0.676110	0.2495	-0.397201	0.3456
Panel ADF-Statistic	-2.676211	0.0037*	-3.985351	0.0000*

* stand for the level of significance at 5%. Lag lengths are chosen by Akaike Information Criterion (AIC).

Table 10 presents results of Johansen Fisher Panel Cointegration Test for the model without trend but with intercept. Both trace test and max-Eigen test reject the null of hypothesis of zero cointegrating vector. The hypothesis that there is one cointegrating vector cannot be rejected. Thus we could conclude that there exists a cointegrating relationship between investment and unemployment level.

Table 10: Johansen Fisher Panel Cointegration Test

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
r=0	78.24	0.0001	79.18	0.0001
r=1	35.94	0.5650	35.94	0.5650

* Probability values are computed using asymptotic Chi-square distribution. Lag length is selected as a 1 lag that is minus one of 2 lags obtained from Kao test.

4. CONCLUSION

Globalization tendencies occurred as a result of technological innovations in recent years affect the fix capital investment as well as all other investments. Also, the fix capital investment to be thought to bring up more in the future is the most important factor for accelerating and expansions of globalization. Like in many developing countries, fix capital investment accompanied by the change of sectoral structure in Turkey is the fundamental element which determines economical growth. Fix capital investment has shown a very rapid development in many developing and developed countries.

After the global economic crisis, tendency of dwindling in general occurred in the world economy. In this process macro economic targets were based on increasing production and employment instead of providing economic stabilization. In that way economic growth was aimed. Global recession has created negative impacts on mainly consumption and production concerning consumption, employment and investment.

In this study, 19 OECD countries which include Turkey is selected by employing panel data in order to test long run relation investment and unemployment by using cointegration tests. Panel data were obtained by selecting annual unemployment level and fixed capital formation between 1985-2008 periods. Firstly, unit root tests are applied in order to test series' stationarities. After testing unit root of series, cointegration tests are applied. According to the results of panel cointegration tests used in study, we accept to presence of a long-run relation between unemployment level and investment in selected 19 OECD countries over 1985-2008 periods.

As can be seen from obtained empirical results, in order to get over the crisis with minimum governments must be focused on fixed capital formation. By using efficiently it, governments can struggle with unemployment problem triggered by the crisis.

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MARKETING STRATEGIES DURING RECESSION AND ECONOMIC CRISIS

Günel ÖNCE
Dokuz Eylül University, Turkey

Mehmet MARANGOZ
Çanakkale Onsekiz Mart Üniversitesi, Turkey

ABSTRACT

Recession is defined by economists as a decline in real annual gross domestic product (GDP) for a period of at least a six-months. As it is known, GDP is a measure of real amount of goods and services produced in an economy in a certain period of time. A decline in real economy means less production. Less production leads to less use of inputs of raw materials and semi-manufactures, an increased unemployment rate, a smaller percentage of capital stock to be divided for production, which results in a decrease in full capacity. In short, the decline in the amount of real production leads to a decline in the real income. In the marketing literature, recession means a decrease in demand.

Business and marketing managers cannot control the recession in the external economic environment, but they need to predict how their business will be affected by this recession and they should take precautions against it. Recession can affect national and international, small and large businesses in different ways at different levels. Differences in inflation and interest rates and different indicators in the economic environment will also affect these factors. Due to these changes in the economic environment and business, companies change their marketing strategies by making changes in marketing mix elements and target market. They become more sensitive to customer requests and requirements, and develop new products or implement downsizing strategies. The aim of this study is to examine the effects of the current global economic recession on business and marketing strategies, and to suggest remedial marketing strategies to cope with the global recession.

Key Words: Global Economic Crisis, Recession, Marketing Strategies

INTRODUCTION

Recently, the world has gone through periods of economic crisis. The most important ones are the Great Depression in 1929, the economic crisis of July 1997 in Asia, which had regional and global consequences, Turkish economic depression in 1994 and 2001, and recently the economic depression which started in USA in 2008 and spread gradually across the world. In times of economic crisis, consumer behavior and marketing strategies of companies are changing rapidly and this has important consequences. During a recession, consumers tend to consume less and save money whereas companies develop strategies in order to increase demand and reduce savings. The contradiction between this consumer behavior and those strategies adopted by companies makes it essential to examine the effects of recessions on the economy (Ang, 2001:263; Marangoz, Uluyol, 2010:83).

Companies continue to operate both in the internal environment which they can control and the external environment which they cannot control. One of the uncontrollable factors affecting the operations of companies is the economic environment. The fluctuations in the economic environment directly affect the activity of companies. The global crisis experienced today brought together global economic recession and this resulted in a decrease in demand, and business failure rate in Turkey came to the highest level in the last twenty five years. As long as these changes in the economic environment follow a predictable trend and can be pre-defined easily, companies can easily adapt to these changes and benefit from them.

Generally a crisis in economy is defined as 'recession'. In a state of recession, economic growth decelerates and gradually falls to negative values. In this case, employment rate begins to decline and the increase in

general prices start to decelerate. Technically, the state of recession is defined as a continuous decline in GDP for two or three consecutive months.(Arıkan, 2008: 12). Generally, the recession in local and regional levels directly affect companies. Since the recession experienced in national or regional level will have local and regional effects, solutions will also be local and regional. However, the global economic depression spreading the world since the beginning of 2008 is considered to be the greatest depression after the Great Depression globally experienced in 1929. This crisis affects national and international companies dramatically. In this aspect, it is different from other local or regional crises.

In the literature, there is a limited number of studies investigating the marketing strategies implemented by companies at times of recession. To date, there were crises at local (Turkey 1994-2001 crisis, etc.) and regional level (such as the Asian crisis) and there is a limited number of studies related to these crises. These studies generally examine the marketing strategies adopted during periods of economic crises. The number of studies directly examining the marketing strategies at times of recession is very limited both in national and foreign literature.

RECESSION IN GENERAL AND ITS CAUSES

According to the data published by the World Bank in January 2010, as a result of the global crisis which started in USA in 2008, it is estimated that, world GDP declined at a rate of 2.2% in year 2009 when compared to previous year. While developed countries contracted at a rate of 3.3%, developing countries continued to grow at a rate of 1.2%. However, in this group, growth occurred mainly in East and South Asian countries like China and India. Economic shrinkage was observed in Central Asian and Latin American countries and European countries which are not members of EU. It is estimated that in 2009, Turkish economy contracted at a rate of 5.8% in 2009 according to the World Bank and 6% according to the Medium Term Program. According to the estimates made by The Economist at the end of January 2010, among the 56 countries, 14 completed the year 2009 with positive growth while the majority 42 remained with negative growth. Turkey, with a decline rate of 6%, was the 12th among 56 countries, which means that it contracted more than 44 countries. (TISK Report, 2010). These data is a proof of an existing global recession. The main factors causing recession in an economy are as follows (Dursun, Nakip, 1997:17-18):

Decrease in total demand

A decrease in total demand leads to a decrease in the level of employment and causes a decrease in profit and income. If there is a great decrease in total demand, the economy will have to continue to operate under capacity and unemployment will therefore increase. If the decrease in total demand exceeds a period of six months, economic recession will occur. Total demand in an economy may decrease for several reasons. These are, briefly,

- The government and public institutions reduce the purchase of final products and services,
- Tax rates increase, therefore,
- The consumers' disposable income falls, and
- This leads to a decline in spending.
- Consumers tend to save money and so they cut down on their spendings.

As a result of all these reasons, decrease in total demand will cause an increase in final product stock because it cannot meet the total supply at the current price. This increase in the total supply will cause companies to reduce their inputs demand and investments, and they will also increase layoffs. A similar situation will arise for service companies. As a result, income will fall, unemployment will increase and the economy will enter a recession period.

Decrease in total supply

A second cause of recession is the decrease in total supply. It results in decreased production and increased unemployment. The basic factors leading to recession and decrease in total supply are briefly;

- Increasing prices of inputs of key importance, such as oil and energy.
- Shortage of inputs
- Tax increase,
- The application of anti-inflationary policies,

- Enterprises canalize their investments to countries where working conditions are more flexible, labour is cheaper and taxes are lower.

The Economic Effects of Recession

Simultaneous decrease in total supply and total demand will also cause recession in an economy. This will also result in decreased production and increased unemployment.

Whether production techniques are traditional or modern and regardless of the geography, sector and scale, economic recession affects all the institutions. Uncertainty of when the recession might end is the main obstacle for institutional enterprises and individual families who will clearly reduce their spendings. The main effects of a recession in economy can be summarized as follows: (Dursun, Nakip :1997:21-22):

Production loss: The first and the most direct effect of recession is the loss of production. Due to recession, when the production factors remain idle, economy will produce less than it can. This will lead to a loss of production. As a result of the loss of production, some of the requirements of the community will not be met, living standards will decrease, taxes directly or indirectly collected by the state will reduce.

Increased unemployment: The second effect of recession is the increase of unemployment. The decrease in sales will cause a decrease in revenues, and therefore, some companies will cease operations or narrow their activities. When unemployment exists for a long time, some psychological or social problems will arise in society. With the increase in unemployment, the number of unproductive people will increase and some of the unemployed people who were previously productive will also join the group of consumers and this will result in an increase in the number of employed people responsible for looking after those who are unemployed. This means that investment funds will have to be allocated to consumption, so the economic growth and development will slow down.

Decreased economic growth: Apart from unemployment and other psychological and social effects, decrease in economic growth will also lead to a loss in future production. When the economy goes into recession, investments also tend to decrease. The decrease in real production will result in a decrease in capital investment which is one of the key factors of future economic growth and development. Therefore, the economic growth and development in the future will slow down.

In order to cope with global, local or regional economic recession, companies must take various precautions. The strategies adopted in recession period are naturally different from the ones adopted at normal times. In times of recession, the most important and rapid change occur in marketing strategies.

MARKETING STRATEGIES DURING RECESSION AND ECONOMIC CRISIS

When there is a recession in an economy the first thing the companies do is to cut spendings. The first method that comes to mind to cut spendings is to reduce the number of staff and limit marketing spendings. However, companies can benefit from the recession period by following effective marketing strategies. In order to choose the best strategy during crisis period, the nature of the crisis must be understood well, the intensity of the competition with the competitor companies must be examined, the current status of the company must be assessed by SWOT analysis and the difficulties of the strategies to be applied in crisis must be considered. (Yagci, 2009:278).

During economic recession, companies must adapt their marketing strategies in accordance with the period if they want to gain market share and maintain their existing share. (Koksal, Ozgul, 2007). Since recession leads to significant changes in customer behaviour, the goal of the companies must be to stimulate demand and to create and produce new customers instead of creating and producing new products and services. This goal should have priority not only at the marketing department, but also at all departments within the company. To reduce the effects of recession, the product features and existing marketing programs should be reviewed (Dursun, Nakip, 1997:23). Recession affects both the sales and profits of companies and marketing strategies. Also, in shrinking markets, there is a tougher market competition and this affects competition strategies. At times of recession, with the changing marketing conditions, companies can apply the following marketing strategies related to marketing mix elements:(Ang et al. 2000, s.108)

Product Strategy

Product features and product lines should be reviewed. Doing so will help companies observe how their products perform in the market and which product characteristics are acquired positively by consumers. These activities might show the necessary changes on the product line and product features. With regard to products, some of the precautions that can be taken against recession are as follows: (Dursun, Nakip, 1997:24-25):

- Narrowing the product line.
- Launching more functional, cheaper products, and secondary brands in the market.
- Finding ways of using less input in the production in order to reduce costs.
- Applying quality discounts.

At times of recession, companies which are not financially powerful must not present new products to the market in order to fill in the gaps at their product line. There are several reasons why companies must not create new products. Firstly, the companies are already in a period of financial recession. Secondly, customers who are already affected by the crisis do not tend to buy new products. Thirdly, competitors do not fill in the gaps in the product line because they lack liquidity. (Ang et al. 2000, s.112). One of the primary goals of companies should be to present a wide scale of products and options which will meet customer needs and requirements at a maximum level. For launching a wide range of products to the target market, flexible product options based on flexible production systems can be the solution. During recession, marketing managers can analyze the surrounding target market to determine which factors affect (or are affected by) the product range and company's market performance. Therefore, with an external investigation to determine company's market share and product range, the following factors should be taken into account; (Titiz, 2003:116):

- The influence of population fluctuation on the product variety,
- How the demographic structure in the market affect the demand on product variety.
- Positive or negative effects of changing income levels on product variety.
- Analyzing the duration of products which are launched by the company or its competitors.

Price Strategy

For the consumers, price has a special importance especially at times of economic crises. At these times, companies should take radical decisions about their prices. The most common decision is to apply short-term discounts in order to increase sales volume. This situation decreases the profitability and may lead to problems if applied for a long time. At these times, two different pricing strategies can be applied; (Ang et al. 2000; Hruzova, 2009:10):

• High quality, low price: Although it results in a loss of customers with low income, the main consideration is the quality of the product. Once the economic conditions improve, it will be easier to expand the product line and increase prices.

• Low quality, low price: It is a suitable strategy to increase or maintain the existing market share in times of recession. After the economic conditions improve, it is rather difficult to increase market share. Therefore, companies should adopt different strategies(discounts, gifts...etc.) instead of making permanent price reductions.

At the time of recession, some sectors may reduce prices whereas some others may increase. This entirely depends on product features and the structure of target customers (Piercy et al. 2010:5). Companies must review and regulate their prices taking into account the target consumers (Kambil, 2008: 51). The current pricing structure of the company may aggravate the negative effects of recession on the company. In recession periods with respect to pricing strategies, sales and revenues may be increased by (Dursun Nakip, 1997:259):

- Price discrimination between different products
- Resorting to discounts where possible,
- Reducing prices,
- Promoting sales by credit,
- Centralizing pricing decisions,

However, it should not be taken for granted that any change in the structure of pricing may affect the image of the product and the company negatively and customers may regard these discounts as decreasing quality.

Promotion Strategy

Customers tend to change their buying behaviors and habits at times of recession. Therefore, promotion strategies must aim not only to maintain existing customers but also to gain new customers. Customers prefer to obtain more information at times of economic crisis. For this reason, in order to gain customer's confidence, companies should provide information about the security, reliability and usefulness of their products (Hruzova, 2009:12). This strategy is particularly important in the preservation of existing customers.

At times of recession, remarketing activities should be intensified by promotions. Also, by increasing promotion activities the amount of demand will be increased. The product's features, functions and cheapness (if there is price reduction) should be emphasized and customers must be informed about how the product meets their needs. If necessary, the method of planning the promotion budget should be changed. Planning the promotion budget as a percentage of the previous year or expected sales will lead to the inadequacy of the budget and so the sales will be affected negatively at the time of recession. Therefore, the promotion budget should be determined according to objective criteria and methods. Each potential customer or customer group should be carefully examined and should be encouraged to purchase products. Selling power also plays an important role at the time of recession. It should encourage to work more effectively and efficiently and should trigger the increase of sales. (Dursun, Nakip, 1997:25-26). In order to overcome the crisis period of recession, advertising and marketing efforts should be enhanced. The strategies adopted by the companies which successfully coped with 2001 economic crises in Turkey are briefly as follows (Ugur, 2009:23):

- *Dove* increased market share of 9.8 % to 15.7% in 2002 by increasing the share of soap brands from 17 % to 50% in TV commercials
- *Akbank* emphasized trust, loyalty and friendship at the time of crisis and increased the number of its customers from 3750 (pre-crisis) to 4800.
- *Alo* targeted at customers who use their washing machines daily, increased the number of its commercials and increased its market share of 3.5% in 1999 to 16.5% in 2001 despite the crisis.
- *Petrol Ofisi* (PO) renewed its logo and increased its market share with new products first by 20% then by 36%, thus increased its net sales by 89% in 2001.
- *Renault Scenic* increased its market share from 2.1% to 3.8% by starting a promotion in 1998 and continuing it in 2001.
- *Garanti Bank* launched Bonus Card in 2001 and with the help of TV commercials and ads increased the number of its member stores to 17.000. Its total revenue increased at 144% in the first nine months of 2002.
- *Turkcell* launched the 'Free Girl' campaign in September 2000 and increased the number of its customers by 46% in 2002 by adding Tarkan to its promotion campaign.

Despite these gains, the majority of companies tend to cut advertisement budgets as a method of saving. However, when the advertisement budget is reduced the sales decrease and the stock increase. And when the competitors continue advertising, the market share decreases. Indeed, while advertising spendings decline globally, successful companies like P & G and Unilever (the world's two largest advertising companies) resumed advertising spending in crisis. In order to maintain their leadership during recession, the world's best and leading brands resumed advertising spendings in times of crisis (Piercy et al. 2010: 5). When the crisis ends, companies which do not stop advertisements are among the most successful ones.

Companies should reconsider their communication strategies in times of economic crises. Instead of using traditional advertising mediums like TV, companies such as P & G, Unilever and Kimberly-Clark used online communication mediums to promote their new products targeting especially young customers. By not using traditional ways of advertising, these companies had achieved a great amount of savings. At times of crises and recession, digital communication prevails and it becomes difficult to coordinate between various mediums of communication (Piercy et al. 2010: 16).

Distribution Strategy

At the time of recession, the distribution system should also be reconsidered. Companies can increase the sales and revenues by shortening the channels of distribution. Distribution costs can be reduced by directly

presenting the product to the customer or eliminating the ineffective resellers from the distribution line. When distribution costs decrease, it is reflected on the prices and this leads to an increase in sales and revenue. However, this strategy is considered to be risky since the eliminated resellers may go counter to the company and its distribution line and may start to work with the competitors. Therefore, before taking such decisions, it is important to try to estimate the duration of the recession, and determine the short-term and long-term gains and losses (Dursun, Nakip, 1997:26).

At the time of recession, different distribution channel strategies can be applied. For example during the Great Depression in the United States during the 1930s, the number of self-service retailers increased. Today, in Sweden, it is possible to see that self-service is gaining prevalence. Moreover, nowadays, non-store sales activities (by phone, e-mail, door to door, etc..)are also increasing rapidly. Non-store retail sale can generally be a cheaper way to appeal to a large number of customers. (Hruzova, 2009:11-12). For example, internet marketing is a very simple, effective and cheap way to appeal to a large number of customers at one time.

Competition Strategy

Each problem faced by a company can bring with it some new opportunities. Recession can reduce the sales of some products while it increases the need for some others. Therefore, it is important to assess what opportunities are created by recession and how the company can benefit from them effectively. Type of self-made products, stores with limited product variety and cheaper generic products are among those opportunities. (Dursun, Nakip, 1997:26).

At times of recession, companies must withdraw from the markets where they are weak and get stronger in the markets where they are leaders and where they are strong. With limited resources, the companies must stock their products and combine the same or the similar activities. At times of recession, companies must choose markets with the highest potentials and canalize their resources to these markets. Companies which have competitive power must increase their competition abilities. Markets that do not grow and the operations in these markets must be eliminated. Resources gained from the withdrawn markets must be transferred to the financing of strong and reliable markets (Ang et al. 2000:109).

When there is recession or crisis in an economy, weaker competitors in the sector of goods and services withdraw from the market. While the market is being rearranged, the biggest competitors strengthen their positions in the market. For example, recession creates opportunities for some manufacturing companies while it exterminates some others. Strong companies get stronger by buying small companies and they get a stronger position in the market in this way (Piercy, 2010: 9).

The Significance of Customer Relations

Economic recession affects customers not only financially but also psychologically (köksal, özgül, 2007). It is observed that during these periods customers become more sensitive to the prices of the products. In such a case, it can be beneficial to encourage credit card usage and create a pricing system which will psychologically affect consumers' cost-oriented perceptions. (Altunışık et al. 2003:330). According to Ang et al. (2000) buying behaviors of people change at times of economic crisis. During this period, people begin to worry about their jobs and they tend to save their money. According to a study conducted by Nielsen Company (2009), the basic thing that people never entirely stop consuming is food (Hruzova, 2009:1). People start to worry about the future and avoid shopping and spending money. Even if they do shopping, they only buy habitual goods and services. At these times, customers are highly money-oriented. (Hruzova, 2009:7). Customers' buying behavior changes at times of crisis and persists long after the crisis ends (Piercy et al. 2010:6). At the time of recession, the changes observed in consumers' buying behaviors can be summarized as follows; (Dursun, Nakip, 1997:23-24):

- Instead of buying new products, consumers tend to content with what they have, or try to repair their goods or get them repaired.
- They prefer the cheaper substitute of the product.
- They tend to buy from reseller institutions which have discounted prices
- They turn to cheaper brands
- They tend to give importance to the durability and affordability of the products

Because of such changes in customer behaviors, the target consumers should be reinvestigated and if necessary, the definition of consumer groups should be changed. The identification of the target group(s)

may alone enhance the performance of the company and determining the factors affecting consumers' attitudes and expectations may help with the better understanding of the target group.

Entering into new markets

Economic crisis also create opportunities for purchases. In such periods, companies which are new or late in breaking into the market can catch up with the market leaders with the help of purchases. On the other hand, combinations and purchases can be an important and alternative strategy of entering new markets and strengthening their market positions. In times of recession, companies must look for the ways to enter growing and developing markets from their local market. (Ang, et al. 2000, 10-110). For example, in the first six months of 2009, the export of Turkey fell 30.6% when compared to the same period of the previous year. Therefore, Turkish exporting companies started to search for alternative markets and especially the percentage of export to the North African region increased at 35% when although it fell in the other markets (Kalkan vand Ülke, 2009; 3) . Within the framework of market diversification, in 2009 it is expected than some countries will gain importance as new export markets. Among these are Azerbaijan, Algeria, China, France, Holland, Italy, Qatar, Kazakhstan, Mexico, Egypt, Uzbekistan, Russia, Saudi Arabia, Turkmenistan and Ukraine (Acar, 2009; 3).

CONCLUSION AND SUGGESTIONS FOR SOLUTIONS

In times of good economic conditions, it is not difficult for companies to increase their revenues. When the whole market is growing, companies can also grow easily. However, when the economy is weak, it is essential to create and implement an effective marketing plan. There are some strategies which are appropriate to be implemented at times of recession.. These strategies focus specifically on the following topics (Ang et al. 2000:117):

- Defining the target market more clearly
- Reducing unnecessary spendings by eliminating unnecessary products and ineffective distribution channels.
- Conducting activities which will increase productivity,
- Focusing on more competitive products.
- Shifting to more profitable customers.
- Being closer to the consumers and investigating their needs and requirements more effectively.

Both in periods of economic crisis and in normal times, companies must regard advertising not as an expenditure but as a kind of investment. It is a well-known fact that economic crisis is a difficult period for countries, economies, companies and even for individuals. But the real issue is how to survive from the crisis with the least damage. Companies must develop original marketing strategies

At times of recession, most companies tend to reduce expenditures. Advertising expenditure is generally among those which is reduced first. Because senior managers (especially the ones who are finance-based) regard advertising not as a profit generating medium but as a defence and insurance against the competitors. In this classical approach, marketing and advertising budgets are designated as a proportion of the expected revenue. However, a higher marketing budget means a higher revenue. In order not to experience bad surprises, companies must be aware of 'recession marketing' techniques and in addition to the strategies presented below, they must avoid the following issues (Büyük, 2003; Karata, 2010):

- Reducing marketing budget is not a solution. The important thing is not to let the structure to become coarse. Companies should avoid unnecessary spendings such as the purchase of expensive furniture, business class flights for sales team, and plane for the company.
- Companies must never fall below the quality expectations of customers.
- Companies must not attempt to burden suppliers and retailers with the load of the recession. Otherwise, they can get their business partners grabbed by competitors.
- Companies must keep their products at low price for a period of time in order to prevent customers to shift to cheaper products.
- If they have enough resources, companies can get the advantage of the recession period in gaining market share.
- Research results show that if companies continue their marketing spendings in the period of recession they become stronger in the market after recession.
- By a good analyze of expenditures, companies must gain savings from true costs. It is observed that if companies analyze the business processes and cost items created by these processes they manage to

create more value. By examining customer operations and the economy of customer relations, institutions can do a more effective cause-effect analysis, and can build up an index of areas where savings can be possible. Instead of an overall saving strategy which can affect the quality of service supplied to the customer, companies must improve the internal processes or change them if necessary. In this way, customers will be affected by the level of quality at a minimum level.

- Suppliers can be used for lower and flexible costs. Studies show that companies become more successful if they focus on their own specialized areas and give the other special responsibilities to other specialized institutions. Such companies gain savings especially at short-term costs.
- Customers supporting growth must be examined. In times of crisis, it is important to review the service supplied to unprofitable customers who cause high operational costs. During The Far Eastern crisis in 1997, Singapore Airlines limited the number of short-distance flights.
- The distribution of marketing channels should be optimized. If they want to gain leadership in the market, companies with multiple distribution channels must constantly control these channels in order to see whether they are suitable to reach to the customers. It is important to have the most effective distribution channel which is necessary for the most successful customer relations.
- At difficult times, it is important not to stop allocating resources for research and development and innovation. The US-based Gillette Company, launched its shaving product 'Sensor' in the early 1990s, when there was recession in economy. Until 1997, 49% of Gillette's sales revenue consists of new products which were launched in the last five years. In 2001 recession period, Intel, allocated 14% of its sales for product innovation investments in order to produce faster, cheaper and smaller computer chips. In the 2001 recession period, Intel, allocated 14% of sales devoted to investment in product innovation. This was the period of Intel's highest growth since 1996. Investments made during this period are Intel's highest growth since 1996 is the period recorded.

Some other solutions can be suggested, but recessions and economic crisis mostly cause restrictions rather than opportunities. For this reason, as a management strategy, in order to strengthen their defence, companies must adopt some offensive strategies. As a marketing strategy, companies must adopt adaptation and improvement strategies (adaptation or rehabilitation) in order to adapt to the market and keep the existing customers. In this way it is possible to be successful in improving the market and in being affected by the crisis as little as possible. To sum up, it is significant to develop a strategic system without taking for granted the period after crisis or recession.

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INFORMATION COMMUNICATION TECHNOLOGIES AND GLOBAL FINANCIAL CRISIS

**Nurdan Colakoğlu
Serkan Dilek**

Beykent University, Turkey

ABSTRACT

The purpose of this study is to search if Information Communication Technologies (ICT) have an important role on economic performance of countries by achieving productivity increases. 2007 Global Financial Crisis effected both advanced and less developed countries. But the countries, which have strong economic infrastructures containing both reel sectors and financial systems, would be effected less than the countries with weak ones. There is no doubt that strong real sectors and financial systems have high rates of productivity which can be realized by ICT investments. Therefore it can be said that these countries have strong economic infrastructures. We benchmarked the economic performances of OECD countries before and after the global financial system. By doing this benchmark we found affection degree of countries from global financial crisis. Also we used ICT data about the countries to measure the ICT infrastructure of countries. We constructed a model which suggests that the countries with strong ICT infrastructures would be affected less from external schocks such as global crisis. In addition we investigate if there is significant relationship between affection degrees and ICT infrastructures of countries by using SPSS 16.00 statistical package programme.

Keywords: *New Economy, ICT investments, Computer Revolution, Productivity*

INTRODUCTION

We are witnessing new era in which Information Communication Technologies (ICT) change all living styles, rules, institutions, culture and economic infrastructures (Dura and Atik,2002,61; Kutlu and Taban, 2007,13). According to many scholars, heavy investments in ICT have changed the rules of economy radically. These scholars notify that the superior performance of the US economy in late 1990's is the product of ICT investments. Because ICT investments caused an acceleration in labor productivity so that US economy achieved economic growth, which is higher than 4 percent, with low unemployment and low inflation rates. Therefore many researches have been published that deal with the contribution of information and communication technology (ICT) to economic growth and to labour and multi-factor productivity (Dilek and others,2009; Pilat,2004).

The world is witnessing the worst financial and economic crisis since the great depression. In 2007 US and advanced economies found themselves facing financial crisis. Banks and other financial institutions would ultimately lose billions of Dollars from their exposure to subprime mortgage market loans. Because of high default rates on subprime mortgages, Investment bank Lehman Brothers went bankrupt in 2008 and many financial institutions were bailed out by governments.

This paper aims to measure if countries, which use ICT widely in their businesses and industries, effected less from the global financial crisis. The results will show if there is strong link between productivity and economic growth. For that reason we used economical data that is obtained from IMF and Worldbank sources, then developed the scale that measures ICT infrastructure. Our hypothesis depend on benchmarking of affection degree and ICT infrastructures of countries. These data are interpreted by using SPSS 16.00 statistical package programme.

NEW ECONOMY

Technological improvements create very important effects on economy, enterprise management and society. Nowadays ICT is a sector that acts as a motor in economy. As a result of the improvements in ICT, the clear and constant effects experienced in economy made a lot of conceptions that are necessary to be redefined in micro and macro levels (Kevük,2006;319). The changes, that occurred on ICT, affect the all sectors of economy. During 1995-1999, US productivity growth experienced a strong revival and achieved growth rates that exceed that of 1913-1972. According to many scholars, the internet and accompanying acceleration of technical change in computers and telecommunications changed the rules of economy radically. These changes created new economy that has equal importance, even more important than the Second Industrial Evolution of 1860-1900 (Gordon,2000;50). According to Sari (2007;659), the impact of internet on economic growth and development is similar to the impact of the worldwide usage of railways for transportation on economic growth.

There is not one definition of new economy. Because it is not a single idea of one author or one group of author. There is no general consensus among the economists using the term “new economy”. Bosworth and Triplett (2000;1) emphasize “The new economy discussion has been inconclusive, because the term new economy means different things to different people”. Several names such as information economy, Network economy, digital economy, intellectual economy, new economy, knowledge economy are used to define the economy climate that is created by the ICT revolution (Kevük,2006;321). But the most common name is new economy.

Stiroh (1999;4) grouped ideas into three broad versions of the new economy. These versions are a long run growth version, a business cycle version and sources of growth version. In all three versions, globalization and ICT are driving forces that are changing economic infrastructure. Long Run Growth version argues that economy will grow faster than before without increasing inflation. According to business cycle version NAIRU has fallen. Therefore economies can provide low inflation and low unemployment together. However this version has no clear explanation about how NAIRU was decreased. Finally, sources of growth version argue that important sectors benefit from increasing returns, externalities and network economies. In a network economy, investment of firm A increases the productivity of other firms. Therefore network economy allows for on going growth that can quickly outpace traditional explanations (Stiroh,1999;5-9).

New economy arose because of the improvement in ICT. So new economy is the direct result of the ability of higher bandwidth communication systems to allow computer to computer communications or networked computers. The new economy enables greater competition, productivity and high growth without inflation (Waverman and others,2005;13).

The most important utility of new economy is the effective mechanism of old economy. Internet and ICT decrease costs, increase competition, provide healthier working mechanism of markets, eliminate entry barriers for markets, organize information flow between buyers and sellers, help productive working of markets, provides economical usage of sources, increase economic efficiency. In other words, Full competitive market, which is defined with no entry and exit barriers, unlimited share of information, transaction with zero costs, can be reached because of internet (Sari,2007;661).

Another property of the new economy is the nature of knowledge goods costs. As production of knowledge goods increase, marginal costs decrease and come near to zero in new economy. So they have the similar properties of public goods. The cost of first production is very high, but the marginal cost of second and other productions are very low. However this decrease was limited in traditional economy. After certain degree of production, average costs started to increase again. For example the first production of software is high, but then it can be multiplied with only the cost of CD (Sari,2007,658; Kevük, 2006,329).

Widespread definition of new economy includes elasticity in labor market, a decrease in NAIRU, an increasing stability in GDP and prices, an increase in long run growth performance. Although traditional economy rules (Phillips curve) say that low inflation can be provided with only high inflation, in new economy rules are some different. The main reason of change in economy infrastructure is increasing productivity because of the usage of ICT, networks (Özgüler,2003;6-7).

PRODUCTIVITY

After the Computer revolution many scholars searched if ICT increased the productivity. Some of these researches found that ICT investments had no role in neither labor productivity nor multi factor productivity (Schrage,1997). Multi Factor Productivity increased 1.9 percent between the years 1948-1973, but the same number was only 0.2 percent (Triplett,1999;310). Solow said his famous aphorism to explain this reality. "You can see the computer age everywhere, but in the productivity statistics" (Keramati and Albadvi, 2006,813-814; Solow,1987).

According to Brynjolfsson (1996) the relationship could not be found because the quality of goods are not counted and also the effects of ICT investments can be seen in long run. Then Brynjolfsson and Hitt (1991) found significant relationship by counting good quality and lag in their model. Also other studies has shown how ICT investments may enhance labor and Multi Factor Productivity (Colecchia,2001; Bosworth and Triplett,2003; Gretton,2004; Baldwin,2004; Hempel,2002; Maliranta and Rouvinen,2004). The studies of Atrostic and Nguyen (2002) and Motohashi (2003) found that networks may increase the productivity statistics. Of Course the usage of ICT is effective when ICT investment is combined with other organisational changes, such as new strategies, new business processes and practices, and new organisational structures (Colecchia,2001; Black and Lynch, 2001; Falk,2001; Greenan and Guellec,1998; Arvanitis, 2004, Hempell and others, 2004).

Emprical studies showed that US productivity increase faster than German and French productivity. According to these studies German industry is %30 and French industry is %40 less effective than US industry. Generally the reasons of the higher labor productivity of US industry are elastic work applications, effective usage of ICT and effective competition climate (Salvatore,2005;59).

ICT revolution has similar impacts on economy, production and organization of firms with steam engine and electricity revolution (David,1990,355; Sari, 2007,658). Electricity and steam revolution enhanced economic growth by the increase in productivity. Both NeoClassical Growth theory and Endogeneous Theory indicates that Technological improvement is a key factor that determines sustainable economic growth (Çolakoğlu and Dilek,2009;1).

The first point we have to care about is the decrease on costs and prices because of the usage of ICT. The cheapest raw materials can be obtained easier, the supply chain works effectively and optimum inventory controls can be done by the usage of ICT. For these reasons firms find opportunity to work with less costs. Researches show that the goods such as books, CD, magazines etc. are sold with the %10 cheaper price in internet than in the retailing shops. Also the cost of a simple bank transaction is 1,27\$ when it is done in branches, 27 cent in ATM (Automated Teller Machine) and 1 cent in internet (Sari,2007;660).

Endogeneous growth theories started with the Pioneer study of Romer (1990). These theories accepts the importance of technological knowledge, human capital, Research and Development activities on providing sustainable economic growth. Emprical studies show that technological improvements are the most important part of the sustainable economic growth (Söylemez,2001;32). Schreyer (2000) investigated the contributions of ICT investments on economic growth by analyzing G-7 countries. There are other studies that deal with the contribution of ICT to output growth of countries (Mateucci and others;2005).

ICT INVESTMENTS

Economic theories have examined the importance of investment in public infrastructure. Some studies (DeLong and Summers,1991) confirmed that specific types of investment, such as public infrastructure and machinery and equipment, have a strong association with productivity and growth. Communication Technology is one of the important part of public infrastructure. So, investment in communication infrastructure such as ICT, generates a growth dividend because the spread of them reduces costs of interaction, expands market boundaries and expands information flows. Efficient communication networks have ultimate importance in modern management methods. Also widespread usage of new technologies provided new production methods and human resources management applications in work organizations, new relationship types between suppliers and customers, new financial methods which enhances high labor productivity (Salvatore,2005;63). For that reason, many studies have been done to measure the growth dividend of communication investments (Hardy,1980; Waverman and others,2005; Schreyer,2000; Roeller and Waverman,2001). These studies showed that communication systems generated economic growth by

enabling firms and individuals to increase productivity, to decrease transaction costs and firms to widen their markets (Waverman and others,2005;13).

Roeller and Waverman (2001) searched the impact on GDP of Telecom infrastructure investments in the OECD countries during 1970-1990 period. As a result of this study the positively significant relationship was found between GDP growth and Telecom demand. It is found that the spread of modern fixed line telecoms networks were alone responsible for one third of the economic growth between 1970 and 1990.

Waverman and others (2005), tested whether the roll out of mobile phone Networks had contribution to economic growth. They found that mobile telephony has a positive and significant impact on economic growth, and this impact may be twice as large in developing countries compared to developed countries.

Madden and Savage (1997) studied with the data of Central European Countries and examine the relationship between growth and economy-wide investment. Finally, they found a positive and significant relationship between aggregate telecommunication investment and economic growth. So improving the chronic underinvestment in the telecommunications infrastructures of these countries may ultimately improve the channel between aggregate investment and growth.

Collecia and Schreyer (2001), examined the contribution of ICT capital to economic growth in nine OECD countries by looking at investment trends in ICT equipment and software and at the role played by ICT in overall capital accumulation between 1980-2000. Contributions to growth are quantified in a growth accounting framework. ICT contributed between 0.2 and 0.5 percentage points per year to economic growth, depending on the country. During the second half of the 1990s, this contribution rose to 0.3 to 0.9 percentage points per year. Effects of ICT on economic growth have clearly been the largest in the United States, followed only by Australia, Finland and Canada. But Germany, Italy, France and Japan have the lowest contribution of ICT to economic growth. There is evidence that new potential driving forces of growth such as ICT, require suitable framework conditions. Many of the same policy prescriptions that may allow the traditional factors of growth to work better are likely to be useful to improve framework conditions conducive to ICT and related technologies.

Hardy (1980) tried to reveal the effects of telephone on economic development by constructing a linear regression model between income per capita and the infrastructure of knowledge society (Dura and Atik, 2002;192-193). The regression equilibrium is like (1)

$$D_t = P_1(D_{t-1}) + P_2(T_{t-1}) + P_3(M_{t-1}) + E(D_t) \quad (1)$$

T= number of telephone per capita D=income per capita M=Radio number per 1000 person
E=error coefficient

METHODS

Data were provided from IMF and United Nations sources. We searched about only OECD countries to limit our study. Also we can find healthy and enough data by choosing these countries. Then ICT infrastructure of these countries is obtained from statistics which were published in World Development Report by World Bank. Finally the regression and relationship between internet users per 100 people and PC per 100 people are searched by using SPSS 16.00 statistical package programme. We utilized from previous studies that search about the relationship between telecommunication, ICT equipment and software (Collecia and Schreyer, 2001; Roeller and Waverman, 2001; Hardy, 1980; Waverman and others, 2005; Madden and Savage,1997). So we revealed if ICT investments and infrastructures effect economic performance of the countries.

Table 1 shows GDP per Capita of OECD countries. As it is seen 2007 Global Financial Crisis hit many of OECD countries. As it can be seen that Table 1 is prepared with current prices, not constant prices. So we neglect the effects of prices on GDP. As it is seen GDP of 28 countries decreased in 2009 according to 2008. Only GDP of Japan increased in this period. The decrease on GDP of Canada (-%11,97), Hungary (-%16,48), Iceland (-%28,48), Ireland (-%15,12), Mexico (-%20,37), Norway (-%16,04), Sweden (-%15,70), UK (-%19,21) are very interesting.

We have 2 suggestions in this study. First; ICT investments increase productivity. Second there is a strong link between economic growth and productivity. So, we searched if the countries that invest in ICT realized higher growth rates and were effected less by the global financial crisis.

Table 1. GDP Per Capita Currently (US\$) of OECD Countries

Country	2006	2007	2008	2009
Australia	37,540.078	44,744.830	48,950.711	45,586.534
Austria	38,926.450	44,842.945	50,039.067	45,989.216
Belgium	37,787.129	43,088.385	47,184.979	43,533.252
Canada	39,269.258	43,396.992	45,064.427	39,668.623
Czech Republic	13,892.895	16,880.475	20,734.147	18,557.141
Denmark	50,553.516	57,043.577	62,237.763	56,115.347
Finland	39,414.657	46,425.654	50,890.524	44,491.538
France	36,865.182	41,940.056	46,034.707	42,747.218
Germany	35,467.551	40,479.996	44,728.509	40,874.635
Greece	23,835.361	27,930.399	31,601.659	29,634.922
Hungary	11,205.352	13,746.152	15,477.498	12,926.503
Iceland	54,119.773	65,186.972	53,100.579	37,976.651
Ireland	52,348.556	59,940.022	60,509.995	51,356.276
Italy	31,917.687	35,992.658	38,887.233	35,435.145
Japan	34,150.333	34,267.767	38,271.388	39,731.042
Korea	19,706.593	21,653.274	19,161.952	17,074.325
Luxembourg	90,714.821	106,983.251	118,570.050	104,511.858
Mexico	9,084.164	9,694.419	10,216.692	8,134.745
Netherlands	41,497.698	46,906.268	52,499.721	48,222.920
New Zealand	25,685.010	30,927.304	30,652.739	27,259.121
Norway	72,076.424	82,076.956	94,196.340	79,085.001
Poland	8,958.016	11,157.270	13,858.412	11,287.922
Portugal	18,466.704	21,085.215	23,069.792	21,407.618
Slovak Republic	10,375.118	13,934.860	17,598.559	16,281.591
Spain	28,244.152	32,443.423	35,376.522	31,946.297
Sweden	43,294.158	49,553.797	52,180.742	43,986.177
Switzerland	53,690.939	59,474.651	68,433.124	67,559.571
Turkey	7,766.965	9,422.082	10,484.261	8,723.406
United Kingdom	40,321.350	45,922.312	43,736.433	35,334.320
United States	44,822.964	46,629.686	47,392.753	46,380.912

Source: <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weoselser.aspx?c=193%2c542%2c122%2c137%2c124%2c181%2c156%2c138%2c423%2c196%2c935%2c142%2c128%2c182%2c172%2c576%2c132%2c936%2c134%2c961%2c174%2c184%2c532%2c144%2c176%2c146%2c178%2c528%2c436%2c112%2c136%2c111%2c158&t=33> (date: 15.04.2010)

Table 2 shows internet users per 100 people. In Denmark, Netherland, Norway and Sweeden at least %80 of people use internet and therefore they are leading countries in this statistic. Other Northern European country Finland also has a higher rate on this statistic. Old Soviet Block countries (Czech Republic, Hungary and Poland) and South European Countries (France, Greece, Italy, Portugal, Turkey and Spain) have lower rates in this statistic. For 2007, the lowest rate is observed in Mexico. We found the average of Internet users per 100 people in OECD countries as 59,6 in 2007. Other continent's countries (Canada, Japan, Korea, New Zeland, US) have higher rates than the average except Australia and Mexico. Table 2 shows also personal computers per 100 people. We found the average of personal computers per 100 people in 2006 as 50,7. Old Soviet Block countries (Czech Republic, Poland and Hungary) again lower rates. But this time France has higher rates than other South European Countries (Greece, Italy, Portugal and Spain). For North European countries, again Denmark, Netherland, Sweeden have higher rates, but Finland and Norway have the rates which are near the average. Turkey has the lowest rate in this statistic. Turkey, Mexico, Greece, Portugal, Poland, Slovakia have low rates in both statistics. So they are behind other countries in computerization when we are witnessing knowledge era.

We used Table 2 for calculating ICT infrastructure of countries. For that reason the sum of internet users per 100 people between 2000-2006 and Personal Computers per 100 people between 2000-2006 was calculated. This sum is called as ICT infrastructure of countries. 2007 statistics about PC and internet has not been published yet. Therefore they can't be used in this analysis. Also it is meaningful to think that ICT infrastructure of countries between 2000-2006 can effect the economic performance of countries 2007 and later. Although Global financial crisis began in 2007 with the crash of financial institutions, it's effects are generally held after 2007. So we analysed the relationship between ICT infrastructure of countries between 2000-2006 and the GDP movements after 2006. In other words if ICT cause productivity and productivity

cause economic growth, then we will see that the countries with high ICT infrastructure will grow faster and be effected less from Global Financial Crisis.

Table 2. Internet Users per 100 People and Personal Computers Per 100 People

Internet Users per 100 People								Personal Computers Per 100 People						
Country	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
Australia	47	53	58	60	62	63	52	47	52	57	60	68	68	76
Austria	33	39	37	41	52	55	61	36	42	48	55	58	61	61
Belgium	29	31	46	50	54	58	62	22	23	24	32	35	35	38
Canada	42	45	62	64	66	68	71	42	46	49	52	70	70	88
Czech Republic	10	15	24	28	32	32	44	12	15	18	21	24	24	27
Denmark	39	43	64	71	76	77	83	51	54	58	58	66	66	70
Finland	37	43	62	66	70	73	77	40	42	44	46	48	48	50
France	14	26	30	36	39	43	50	30	33	35	42	50	58	58
Germany	30	32	49	54	61	65	69	34	38	43	48	55	55	61
Greece	9	11	15	16	20	22	29	7	8	8	9	9	9	9
Hungary	7	15	17	22	28	37	45	9	9	11	13	15	15	15
Iceland	44	49	78	81	82	86	65	39	42	45	46	47	48	53
Ireland	18	23	26	31	34	37	51	36	39	42	46	49	49	53
Italy	23	27	34	39	47	48	53	18	20	23	27	31	37	37
Japan	30	38	46	48	62	67	68	32	36	38	41	54	54	68
Korea	41	52	59	66	70	73	75	40	48	49	51	54	48	53
Luxembourg	23	36	40	53	65	69	71	46	52	60	62	62	63	67
Mexico	5	7	13	15	16	18	19	6	7	8	10	11	14	14
Netherlands	44	49	61	64	72	79	81	40	43	47	51	68	68	85
New Zealand	48	54	60	62	63	64	69	36	39	41	44	47	47	50
Norway	27	29	73	75	75	80	81	49	51	53	55	57	57	59
Poland	7	10	21	25	29	35	40	7	9	11	14	12	19	24
Portugal	16	18	19	26	29	32	36	10	12	13	13	13	13	13
Slovakia	9	12	40	43	46	50	36	14	15	19	24	30	36	36
Spain	13	18	20	37	40	44	48	17	22	19	22	26	28	28
Sweden	46	52	71	77	82	81	86	51	56	62	62	76	76	84
Switzerland	48	55	62	65	68	70	71	65	68	71	71	83	87	87
Turkey	4	5	11	12	13	14	18	3	3	3	5	5	5	6
United Kingdom	27	33	56	61	63	66	66	34	37	40	41	60	60	76
United States	44	50	60	63	66	69	70	57	62	78	66	76	76	76

Source: WorldBank Development Indicators from www.nationmaster.com

ICT INFRASTRUCTURE AND THREE GROUPS

After calculation of economic infrastructure we sorted OECD countries according to their ICT infrastructure rates. This gives us opportunity to divide countries into three groups. ICT infrastructures and groups are shown in Table 3. We called first gorup as High Digitalized OECD Countries; second group as Medium Digitalized OECD Countries and Third group as Low Digitalized OECD Countries.

Table 3. Economic Infrastructures of Countries

High Digitalized OECD Countries			Medium Digitalized OECD Countries			Low Digitalized OECD Countries		
1	Switzerland	138,71	11	Luxembourg	109,85	21	Italy	66,28
2	US	130,42	12	Finland	106,56	22	Slovakia	58,56
3	Sweden	129,42	13	N.Zeland	103,42	23	Spain	54,56
4	Denmark	125,13	14	UK	102,99	24	Czech Republic	46,56
5	Netherland	121,70	15	Germany	99,13	25	Poland	37,56
6	Canada	119,28	16	Japan	97,42	26	Portugal	37,56
7	Australia	117,56	17	Austria	96,99	27	Hungary	36,84
8	Norway	117,27	18	France	77,71	28	Greece	25,84
9	Iceland	115,13	19	Belgium	76,99	29	Mexico	23,28
10	Korea	111,28	20	Ireland	76,27	30	Turkey	15,28
Average Shrank		%11,13	Average Shrank		%9,75	Average Shrank		%12,21

High Digitalized OECD Countries: These countries have higher economic infrastructure of other countries. So they are the part of global network, the barriers against good-service trade and capital movements are very weak. These provides both opportunity and threads for these countries. The members of these group are Switzerland, US, Sweeden, Denmark, Netherland, Canada, Norway, Australia, Iceland and Korea. Switzerland is the most digitalized country between OECD countries. It is observed that Sweedish, Danish, Canadian, Norwegian, Icelander and Korean economy shrank by higher than %10 in 2009 due to 2008. Their economy shrank by at average %11,13. This is not a low ratio. Although their economies have got the productivity advantages of ICT, another effect came into account. The reason of this shrank is globalization. These economies are more sensitive to the financial crisis than others, because of the improved Networks. This result will be subject for further academic studies.

Medium Digitalized OECD Countries: These countries have economic infrastructure rates between High Digitalized and low digitalized countries. The members of this group are Luxembourg, Finland, N.Zelland, UK, Germany, Japan, Ireland, France, Belgium, Austria. They are not linked into world as strong as high digitalized countries. Therefore they can protect themselves against global crisis easier than high digitalized countries. Luxembourgean, Finnish, Nez Zellandian, Irelander and UK economy shrank by higher than %10 in 2009 due to 2008. Japan's GDP increased in this period. Their economy shrank by at average %9,75. Even we exclude Japan GDP new mean becomes %11,26, not much higher than high digitalized countries. It is lower than the other two groups. Contemporary studies showed that ICT investments provide productivity gains. When we suggest that there is a strong link between productivity and economic performance of countries, then we should have seen that High Digitalized Countries with higher growth rates. But we didn't observed this solution.

Low Digitalized OECD Countries: These countries have the lowest economic infrastructure rates. The members of this group are Italy, Slovakia, Spain, Czech Republic, Poland, Portugal, Hungary, Greece, Mexico and Turkey. Their economy shrank by at average % 12,21. Spanish, Czech, Poland, Hungarian, Mexican and Turkish GDP decreased higher than %10 in 2009. Also in 2010 Global crisis hit Greece economy, but it was not seen in 2009 statistics. These countries are effected higher than the other countries. Because of the low ICT investments, these countries have not utilized from the productivity gains. Probably this is one of the reason why global crisis hit these countries strongly.

If ICT effected productivity and productivity effected economic growth then the countries with higher digitalization degree, would be affected more from the global crisis and their GDP would decrease. However the economy of medium digitalized OECD countries shrank less than the others. Because other factors such as institutional infrastructure, financial transparency, economy policy etc are more effective than productivity gain.

CONCLUSION

There are many studies which search about the relationship between ICT investment and productivity. If productivity effects economic growth, in other words if there is strong link between productivity and ICT investment then external schoks will effect the countries, that invest on ICT, less than other countries. First we divided countries into three groups according to their ICT investments. These groups are High, Medium and Low digitalized OECD countries. Then we searched if GDP of High Digitalized Countries decreased less than the others. We got results as below.

- 1-) GDP of High Digitalized Countries decreased more than GDP of Medium Digitalized Countries.
- 2-) GDP of High Digitalized Countries decreased less than GDP of Low Digitalized Countries.
- 3-) GDP of Medium Digitalized Countries decreased less than GDP of Low Digitalized Countries.

Although second and third result is expected by ones who believe in strong relationship between productivity and economic growth, first result does not defend this relationship. High Digitalized Countries have strong Networks with the rest of the world and they have lack of protection of Global Crisis. We estimated that the reason of first result is this lack of protection, but it should be proved by further studies.

As a result we could not confirm the link between productivity gain, which is obtained becuase of ICT investments, and economic growth. But the productivity gains of ICT could not be seen until Bresnahan and Brynjolfsson's studies in 1990's. We hope that further studies will show the mechanism, which studies how productivity effect economic growth and prove the link between two variables.

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PERSONNEL TURNOVER IN TURKISH BANKING SYSTEM DURING GLOBAL CRISIS: A COMPARISON WITH PRE-CRISIS PERIOD

Mehmet Tikici
Ali Aksoy
M. Recep Armutlu
İnönü University, Türkiye

Rabia Ece Omay
Anadolu University, Türkiye

Sinem Güravşar Gökçe
İnönü University, Türkiye

ABSTRACT

The aim of this study, in which the personnel turnover rates in Turkish banking sector is examined for the periods before the crisis (2004-2006) and during the crisis (2007-2009), is to answer the question; “Is there any statistically meaningful difference between the personnel turnover ratios for the periods before and during the crisis in Turkish Banking Sector?”. In this scope, first the global crisis and personnel turnover concepts are examined; then the personnel turnover ratios of Turkish Banking sector for the periods before crisis (2004-2006) and during the crisis (2007-2009) are examined by Mann-Whitney U test. For description purposes the increases and decreases in personnel turnovers are shown by bar and line graphs. Finally, to make an international benchmarking the yearly personnel turnover ratios of the U.S. banks, which is accepted as the starting point of 2007 crisis, are compared to Turkish Banks’ by the help of graphs. The results of this study are given in “Conclusion and Evaluation” section in detail.

Keywords: Global crisis, personnel turnover, Turkish banking system.

INTRODUCTION

Economic crisis can arise in various forms like rapid downsizing in production, rapidly decreasing prices, bankruptcy, rapidly increasing unemployment ratio, decreasing salaries, stock-market decline, and bank crisis. Weak banking legitimate, complaisance and not satisfying standards of fundamental capital adequacy can be listed as the main reasons of financial crisis (Stiglitz, 2001: 12). Besides the effects of crisis in macro level it also causes many important problems in company level. One of these problems is its “negative effect on personnel turnover ratio”.

In this study, the banking sector, which has a great importance due to its big effect on country economy and high number of personnel, is chosen as the application area. The personnel turnover in the sector is examined for before and during crisis periods. In this scope, the hypothesis of the study is “there is not a statistically meaningful difference between the personnel turnover ratios of periods before (2004-2006) and during crisis (2007-2009) in Turkish Banking Sector”.

Global Crisis

When the history of crisis is examined, the World Economical Crisis in 1929 is accepted as the first crisis. The oil crisis at the beginning of 1970s caused a deep economical depression since recession and inflation were lived together (Güçlü and Ak, 2001: 913). After this crisis, the energy crisis related to the Iran Revolution in 1979 and stock market crisis of the U.S.A in 1987 occurred. Towards the end of this century, the crisis that enclosed the whole Asia and Latin America were lived. Then the new century has begun with

the global crisis that started in the banking sector due to the decreasing prices of the housing and the collapsing of mortgage system in the U.S. and spread out to the whole world. This crisis is the second biggest one, after World Economic Crisis in 1929 and it has been affecting all of the countries without making any discrimination between developed or developing countries (Alptekin, 2009: 1).

Turkey met the crisis first by living a serious crisis due to the World Economic Crisis in 1929 and the debts of Ottoman Empire (<http://www.atonet.org.tr/turkce/bulten/bulten.php3?sira=316>). After that period, Turkey experienced many other financial crises like the other countries, due to the “restructuring of the economy” and “financial freedom policy” applied to come out of the difficult and depressing times of political, economical and social turbulences (Armutlu, 2005: 1197). The 1982 Banker Crisis, April 1994 Crisis, February and November 2001 and finally 2007 crises have an important place in these crisis.

Personnel Turnover

The crisis always has serious effects on managerial issues. For example, a study on the impact of crisis on Norwegian banks showed that managers contributed to the crisis, due to a set of common managerial misrepresentations of the situation like “external attribution of failure, overoptimism and overconfidence, the confirmation trap, the illusion of control, irrational escalation of commitment and insufficient adjustment” (Lai, 1994:397-408). Besides these strategic human resources management becomes more important in such crisis periods. Thus, in this study, the impact of crisis on the personnel turnover ratio, which is one of the most important strategic management issues, is examined.

As a concept, personnel turnover is the ratio of the mobility of personnel in a specific period to the average personnel number in that period. Besides the effects of personnel turnover ratio in company level, it also has an effect on country economy especially on increasing unemployment. This subject has always been attractive for the labor planners in general. Because like the increasing temperature of the organism is an indicator of a problem, very high or low personnel turnover is an indicator for the managers telling that “there is something wrong in the operation of the organization” (Gaudet, 1960:12).

In general, personnel turnover has positive and negative effects on both the companies and the personnel. Positive effects are; providing new blood to the organization by the circulation of personnel, changing the personnel that are old or have health problems with stronger and younger ones, meeting the personnel’s career expectations by promoting them to the empty degrees, and contributing to the solution of their internal conflict. It is also seen as an application which helps to sustain the opportunity equity in business life (Saruhan, 1986: 50). Besides these positive effects, the negative effects of personnel turnover can be listed as follows:

- a) The “qualified labor” that is found in the quitting personnel, is reflected as an advantage to the competitors (Rigers and Myers, 1989: 306).
- b) Cause a delay in the operation of the company (Lam, Baum and Pine, 2003: 160–177).
- c) The “qualified labor” that is found in the personnel quitting, causes more expenses since the candidates will be less experienced and need training (Jones, 2005: 43–47).
- d) The anxiety and stress of the personnel that are dismissed or saved from dismissing, damage the organizational continuity and information flow (Aycan, Kabasakal, and Erkovan, 2009: 618).
- e) The assumption saying “the quitting personnel is less productive than the remaining personnel” causes “Hobo Syndrome”. This syndrome describes “the impulse of periodical migration from one job to another” and it is believed that the personnel turnover creates this impulse by instinct (Munasinghe and Sigman, 2004: 191-218).
- f) Decrease in the performance of the department that has lost their personnel because this would cause pressure and depression on the remaining personnel. The effects of this vicious circle make difficult to keep the remaining personnel (Coomber, and Barriball, 2007: 297–314).

In the Strategic Human Resources literature, the concept of “exiting” is used as synonymous of personnel turnover frequently. There are two types of “exiting”, which describes finishing the relations of personnel with his/her organization. The first one is quitting the job voluntarily; the second one is being dismissed. The high number of both types of exiting shows that there is a problem in the organization. But since this application is seen as a tool for decreasing the expenses, controlling the risks and uncertainties (Aycan, Kabasakal, and Erkovan, 2009: 618.), it is preferred frequently by the companies, especially in crisis periods (Asunakutlu and Dirlik, 2009: 49-51). Thus, in this study “personnel turnover” is examined from “exiting” point of view.

METHODS

In the study, it is examined whether there is a significant difference for the personnel turnover of Turkish Banks for the periods before (2004-2006) and during the crisis (2007-2009). In this scope, the personnel turnover ratios are calculated by using the “Bank, Branch and Personnel Information” quarterly statistics (for March, June, September and December) that are published by Turkish Banking Association (Turkish Banking Association, www.tbb.org.tr) for the period 2004-2009. In the first part of the analysis, the banks are examined in two groups as accepting and not accepting deposit, and then, the personnel turnovers are examined for all Turkish Banks. In the second part, the banks accepting deposit is examined by its subtitles as private, public and foreign banks.

Since the data is obtained by calculation, in the first two parts Mann-Whitney U test is applied, which is the nonparametric correspondence of t test. Besides these tests the increases and decreases of personnel turnovers for the respective data is described by bar and line graphs. In the third and last part, to make an international benchmarking the yearly personnel turnover ratios of the U.S. banks, which is accepted as the starting point of 2007 crisis, are compared to Turkish Banks’ by the help of graphs. The data for the U.S. is obtained from the web site of American Bankers Association (American Bankers Association, <http://www.aba.com/default.htm>). In this scope, the personnel turnovers are calculated by using the published data with the help of equation (1):

$$\text{PersonnelTurnoverRatio} = \frac{PE - PB}{APN} \quad (1)$$

PE : The number of personnel for the end of the period that is interested in.

PB : The number of personnel for the period before the one that is interested in.

APN : Average personnel number (Average of PE and PB)

FINDINGS

In this part, the Turkish Banks’ personnel turnover rates for all of the banks and sub units of the banks that accept deposit are examined separately. Then the personnel turnover rates of the Turkish Banks and the U.S. banks are examined and compared.

Personnel Turnover Ratios of Turkish Banks

In this part, first statistical analysis are done for the personnel turnover ratios of banks accepting and not accepting deposit for the periods before (2004-2006) and during (2007-2009) crisis by quarterly periods for each year. Then for comparison the bar and line graphs (see Figure 1 and Figure 2) of banks accepting and not accepting deposit are drawn. Finally the analysis is done for all of the banks as a total.

- **Banks Accepting Deposit**

To find out whether crisis has a significant effect on personnel turnover or not, 2004-2006 period is considered as before the crisis, and 2007-2009 period is considered as during the crisis period. As a result of Mann-Whitney U test, the value of test statistics, $U=62$ and its respective probability value is $P=0.59$. Since $P = 0.59 > \alpha = 0.05$, it can be concluded that there is no significant difference between the personnel turnover ratios of the periods before and during crisis for the banks that accept deposit.

- **Banks Not Accepting Deposit**

Similar to the analysis of banks accepting deposit, Mann-Whitney U test is used for the comparison of periods of before and during crisis for the banks that do not accept deposit. As a result of this test, $U=47$ and its respective probability value is $P=0.16$. Since $P = 0.16 > \alpha = 0.05$, it can be concluded that there is no significant difference between the personnel turnover ratios of the periods before and during crisis for the banks that do not accept deposit.

- **Comparison of Banks That Accept and Do not Accept Deposit**

When Figure 1 is examined, it can be seen that personnel turnover increases upto 2008 continuously, then it rapidly decreases to 2004 level for banks accepting deposit. The personnel turnover ratios for the banks that do not accept deposit take its minimum value in 2005. This value is negative, which shows that the personnel number is decreased compared to the previous year. The following years this value increases continuously, but in 2008 it rapidly decreases to 2004 level and it again becomes negative. This can be seen in Figure 2. When Figure 2 is examined, it can be concluded that there is a continuous increase in personnel turnover ratios until 2008 for both banks accepting and not accepting deposit and then there is a rapid decrease.

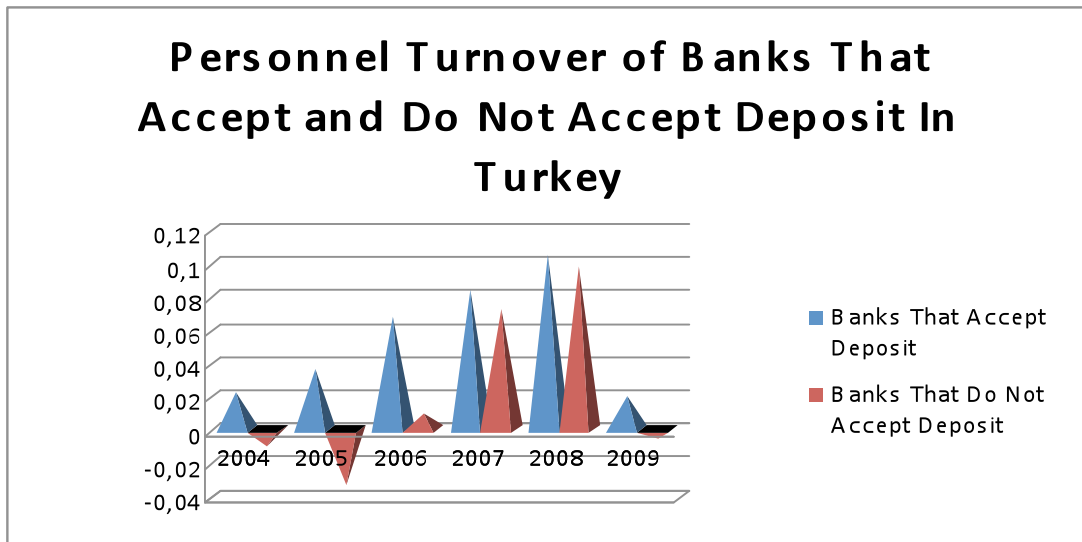


Figure 1. Bar Graph of Personnel Turnover for Banks Accepting and Not Accepting Deposit

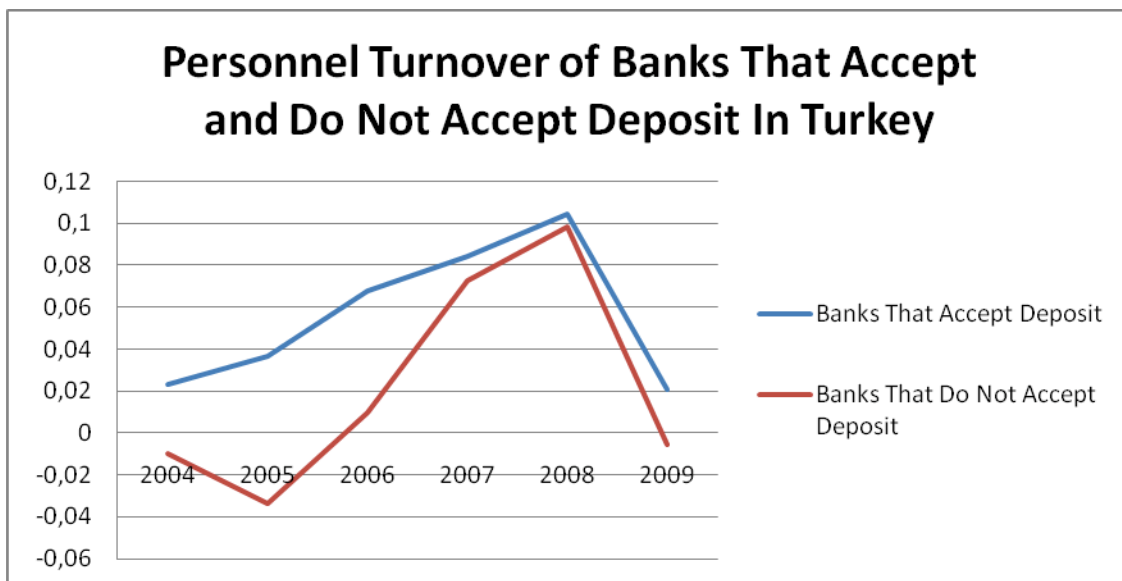


Figure 2. Line Graph of Personnel Turnover for Banks Accepting and Not Accepting Deposit

- **All Turkish Banks**

The results of Mann-Whitney U Test for all of the Turkish Banks (Accepting and Not Accepting Deposit) are $U = 61$ and its probability is $P = 0.551$. Since $P = 0.551 > \alpha = 0.05$, there is no significant difference between the personnel turnover ratios of the periods before and during crisis, when all of the Turkish banks are concerned.

Comparison of Personnel Turnovers of Sub-Units of Banks Accepting Deposit in Turkey

In this part, first the personnel turnovers of banks accepting deposit are evaluated within some of its sub-units, public banks, private banks and foreign banks, and then these banks are examined by the help of graphs given in Figure 3 and Figure 4.

- **Public Banks**

As a result of Mann-Whitney U test for public banks, the test statistics value is $U=35$ and the corresponding probability is $P=0.03$. Since $P = 0.03 < \alpha = 0.05$, it can be concluded that there is a significant difference for the personnel turnover of public banks when the periods before and during the crisis are concerned.

- **Private Banks**

As a result of Mann-Whitney U test for private banks, the test statistics value is $U=68$ and the corresponding probability is $P=0.843$. Since $P = 0.843 > \alpha = 0.05$, it can be concluded that there is no significant difference for the personnel turnover of private banks when the periods before and during the crisis are concerned.

- **Foreign Banks**

As a result of Mann-Whitney U test for foreign banks, the test statistics value is $U=57$ and the corresponding probability is $P=0.41$. Since $P = 0.41 > \alpha = 0.05$, it can be concluded that there is no significant difference for the personnel turnover of public banks when the periods before and during the crisis are concerned.

- **Comparison of Personnel Turnovers of Public, Private and Foreign Banks**

When Figure 3 is examined, it can be seen that especially between the years 2005-2008, the personnel turnover ratios of foreign banks are much higher than public and private banks. The ratio for public banks increases in 2008 and 2009 compared to the previous years. The ratio for private banks becomes negative only in 2007. This means; personnel number of private banks decreased in this year compared to the previous one. These changes in personnel turnover of the banks are also shown in Figure 4 by the line graph. Both Figure 3 and 4 show that while changes in personnel turnover ratios for public and private banks are parallel, the changes for foreign banks has more sudden upturns and downturns.

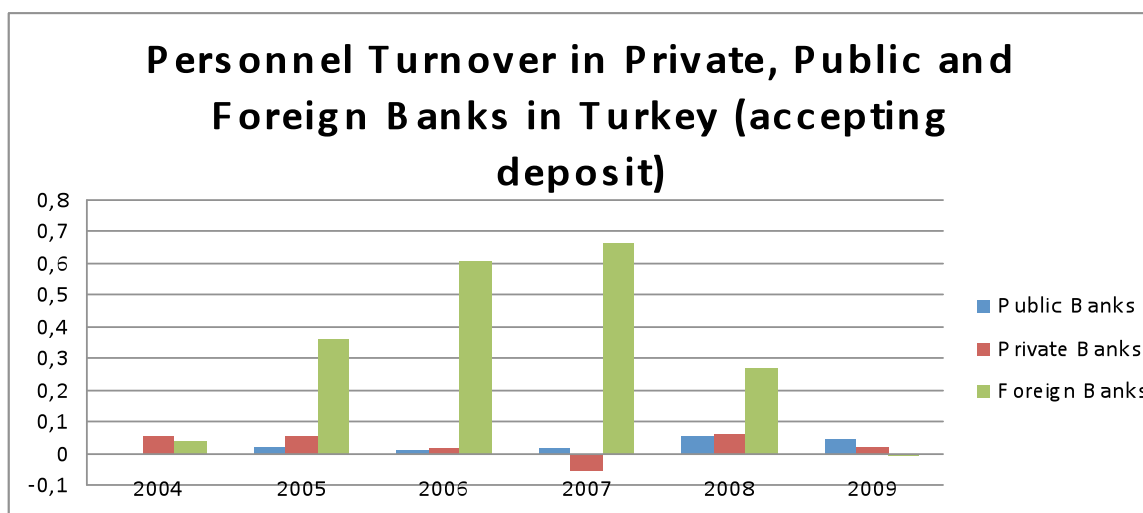


Figure 3. Bar Graph of Personnel Turnover Ratios for Public, Private and Foreign

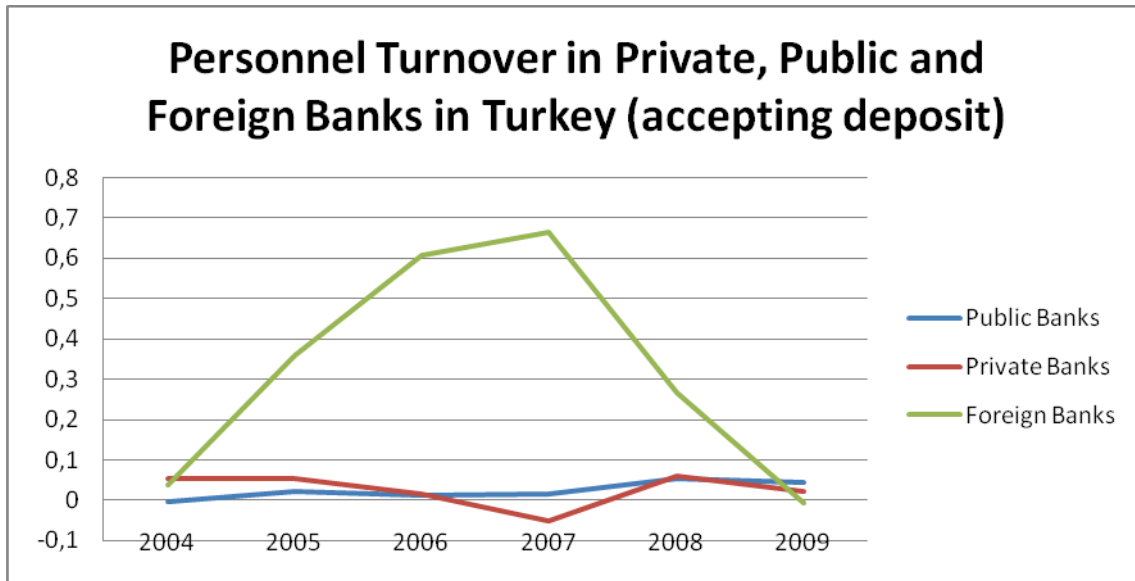


Figure 4. Line Graph of Personnel Turnover Ratios for Public, Private and Foreign

Comparison of Personnel Turnover Ratios of Turkish and the U.S. Banks

In this part, since the data for the U.S. was inadequate which was published in yearly basis, a statistical analysis cannot be done. But to be able to make a comparison between the behaviors of Turkish and the U.S. banks, bar and line graphs are drawn as seen in Figure 5 and Figure 6.

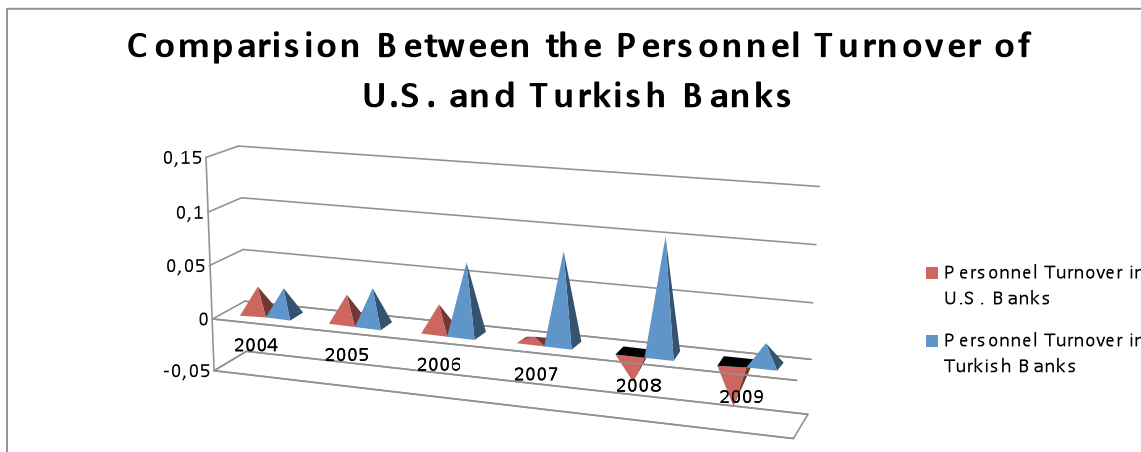


Figure 5. Bar Graph of Personnel Turnover Ratios for Turkish and the U.S. Banks

When Figure 5 is examined, it can be seen that there is a continuous upturn in Turkish Banks' personnel turnover ratios until the year 2008, but in 2009 there is a downturn approximately to the level of 2004. On the other side, the U.S. banks' personnel turnover ratios were almost in the same level in 2004-2006 but it decreased in 2007 and it took a negative value in 2008 and 2009. The personnel turnover ratio for the U.S. Banks had the minimum ratio in 2009. This can be also in the line graph given in Figure 6.

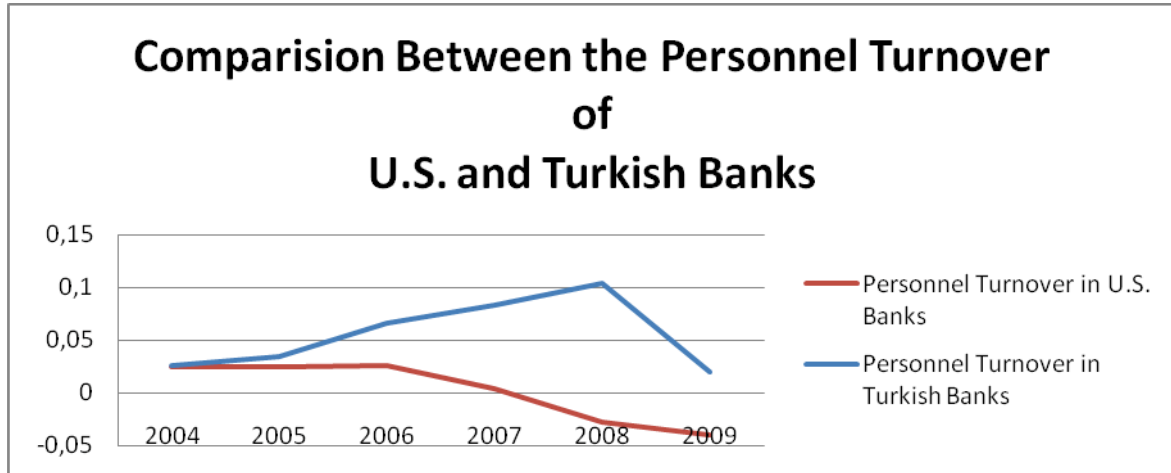


Figure 6. Line Graph of Personnel Turnover Ratios for Turkish and the U.S. Banks

CONCLUSION and EVALUATION

As a result of the analysis, it is found out that there is not a significant difference in personnel turnover ratios between the periods before and during the crisis when all of the Turkish Banks (accepting and not accepting deposit) is concerned. More clearly, we can conclude that, in the crisis period, banks did not choose to dismiss employees to decrease the expenses and increase the profitability. Despite this human resources strategy, the banks did not bear a loss and mostly sustained the profitability level of the period before the crisis.

In the study, the personnel turnovers are analyzed for also in the level of subtitles of banks accepting deposit, as private, public and foreign banks in detail. It is found out that there is not a significant difference in personnel turnover ratios between the periods before and during the crisis, when the private and foreign banks are concerned. On the other hand there is a significant difference in personnel turnover ratios for public banks but this result can also be explained by human resources strategies independent from crisis.

When the personnel turnover ratios of Turkish and the U.S. banking sector are compared for the crisis period, the result is found as expected. Since the global crisis has emerged and spread from the U.S. banking sector, it is natural that due to the damages and bankruptcies the employees in this sector had lost their jobs.

It is commonly accepted that “When compared to the other countries, Turkish economy managed the crisis more strategically and so not affected as much as many other countries”. This general assumption is valid for Turkish banking sector. The main reasons of why the effects of crisis on Turkish banking sector is low, can be summarized as follows:

The crisis that has occurred in 1980-2001 period in Turkey had deep and destructive traces on Turkish banking sector. Some structural and operational regulations were done for repairing this destruction and decreasing the fragility of the sector to make the sector ready for the new shocks and crisis. In this scope, Banking Regulation and Supervision Agency (BRSA) was established to organize and control the banking system and Savings Deposit Insurance Fund (SDIF) was established to preserve saver’s rights and benefits. Besides with new legal regulations the efficiency of these associations increased in time. For the public banks; restructuring process was started and the task damages were refined. So usage of these banks by the politicians for their personal benefits was avoided. As a result, financial risks were decreased to a manageable level, the transparency in the auditing system was increased, capital structure was strengthened by increasing the adequacy of sector’s capital and the fragile structure of the sector was eliminated.

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STRATEGIC FINANCIAL LEADERSHIP: CAN IT TAKE US OUT OF GLOBAL CRISIS?

Korkmaz Uluçay
Beykent University, Turkey

ABSTRACT

The purpose of this study is to evaluate the level of trust to financial leaders who were mostly blamed for the current economic crisis. People believe Chief Financial Officers (hereafter CFOs) played a key role in this global crisis. To gain the trust of the people is essential for every leader. Financial leaders cannot be effective without full confidence of the people. Due to lack of confidence, people feel overwhelmed with problems.

The article proceeds in the following manner. First, the literature was briefly reviewed and the roles of CFOs were discussed. The hypothesis was developed concerning the effects of financial leadership in the current crisis. Then, the hypothesis was tested by using data from 384 people in Turkey. Finally, research findings were discussed considering their impacts.

Keywords: CFO; confidence; finance; financial crisis; financial leadership

INTRODUCTION

A leader can be defined as an individual with the ability to influence others. Without trust, a leader cannot achieve his goals. Leaders cannot be effective without full confidence of the constituencies that grant their institution its legitimacy, nor can capitalism function without trust (George, 2008). One of the CFO's primary tasks is the analysis of a wide range of financial issues, resulting in recommendations for action to the management team (Bragg, 2007).

The decline in confidence in financial leaders is outstanding. Nowadays we witness some governments have to bail out many financial institutions to keep the system from breaking down. Although it has been said the crisis was caused by complex instruments, the real reason was maybe the failures in leadership. While many experienced people in financial markets warned the leaders against the forthcoming danger, few were listening to them. In recent years, financial leaders felt forced to produce short-term profits, and massive short-term gains caused great losses.

FINANCIAL LEADERSHIP

Leading CFOs around the world say they need "it" to bring their teams to the next level in driving business performance within their organizations. "It" is Financial Leadership (Thomson, 2008). Some sources mention about the "six Cs of leadership credibility", which are *Conviction, Character, Care, Courage, Composure* and *Competence*. On the other hand, due to another classification, some harder skills, such as strategic planning, enterprise risk management, and continuous process improvement, and softer skills, such as negotiation, collaboration, and change management are often taken into consideration. The first responsibility of financial sector leaders is to create value for the owners of their companies. In doing so, they will make a series of decisions that are good for the economy as a whole.

Leadership really is a continuum, an opportunity to continually grow and improve your ability to influence others for the greater good (Thomson, 2008). The CFOs need to adapt quickly to new realities, changing themselves as well as their institutions, rather than going into denial when things do not go as intended. They should have the integrity to tell the truth, admit their mistakes, and acknowledge their shortcomings. Leadership is not about being perfect. It is having the courage to admit when you are wrong and to get on with solving problems, rather than covering them up. Resilience enables leaders to restore trust by empowering people to create new solutions that build great institutions for the future. Only then can people regain trust and confidence.

H: The current crisis caused a decline of the trust in financial leaders.

The CFO Team

As the leader you cannot perform all the functions yourself (Adair, 1983). Regarding financial leadership, CFOs are generally concerned that there is a gap between the current state of reality and the aspirations for their CFO teams in helping to drive business performance inside their organizations. Stakeholders would like their CFO teams to be more focused on decision support, helping to create wealth, and creating influence at the table as a strategic business partner while still ensuring a clean bill of health for the company financially (Boyle M. & Gaynor P., 2008). Today one can observe that the CFO team mainly focus on processing transactions. In fact, it is time to make changes in the traditional CFO roles and every day it is getting more important to be a strategic business partner. Developing skills on the CFO team, including financial leadership, can bring the organization to a upper level of performance in global marketplace. In order to achieve the desired goals, these skills should involve strategic planning, including integration of planning, budgeting, and forecasting; “predictive” analytics, including more advanced forecasting methods, competitive analysis, business intelligence, and data mining; enterprise risk management; financial statement quality assurance; greater integration with IT; project management to enable the CFO team’s leadership role on crossfunctional organizational initiatives; process management for key business processes; and “softer” skills, such as negotiation, collaboration, change management, and communication (Thomson, 2008). From an organizational perspective, that’s what financial leadership is all about. Besides, CFOs have to have a strong ability to work with other members of the company who are probably not directly supervised by them (Bragg, S. M., 2007).

Difficult times

Leadership and management are a lot easier when times are good, but organizational life runs in cycles, so like it or not, times are also going to be bad (Autry, 2001). In today’s challenging economic environment, it can be hard to justify an investment in the finance function. Leading CFOs know that a strong finance function is very important and it guides their companies through difficult times. The world has to face a new financial architecture and it is beyond the control of national governments. Recent financial crises have shown the need for new kinds of global financial regulation. On the other hand, times of crisis should not take attention away from the importance of transformation. In fact, being skilled in the business partner role is a very important competency for hard times.

Today’s chief financial officers (CFOs) face a complex and challenging business environment. In this environment, innovation is a must. Financial executives must play a leading role in accelerating strategic growth across the enterprise. CFOs are uniquely qualified to provide meaningful input to their organizations’ current and future investments, participate in the broader corporate vision, and advocate and produce strategic transformation. CFOs who understand this new requirement to be a catalyst agent of change—and to lead transformation across the enterprise—can create enormous competitive advantage for their corporations (Boyle M. and Gaynor P., 2008). Today, every CEO worth his salt wants to be transformational leader, in part because down in the canyons of Wall Street, a good leadership persona can add several billions to a company’s market capitalization (Dauphinais & Price, 1998).

Vision

The factory manager and the combat commander may be superb leaders, but many of their goals are set at higher levels (Gardner, 1993). The visionary leader may generate new views of the future and may be a genius at synthesizing and articulating them, but this makes a difference only when the vision has been successfully communicated throughout the organization and effectively institutionalized as a guiding principle (Bennis, Parikh & Lessem, 1994). The organizations require their CFOs to have the vision to look beyond the basic functions of finance and to drive new value and higher levels of business transformation and performance. You have to have a vision and you have to care – passionately (Peters & Austin 1985). CFOs have to deal with changes. Demands on the CFO’s role have been mounting for years. New pressures on the finance function, conflicting demands from different stakeholders, and increased business and personal risk have eroded job satisfaction for many and made it difficult to stay with one company for long. Then it’s ironic to note that the value of strong financial leadership— and the necessity for CFOs to participate in the business at a broad and strategic level—has never been greater (Boyle M. and Gaynor P., 2008).

Business partners

The CFO as a business partner does not have to neglect his/her other roles in the finance department. He/she anticipates changes in the business environment and uses every tool at his/her disposal to drive improvement and preparedness across the entire enterprise. This involves identifying the appropriate set of improvements—ones that are aligned with the business strategy—and putting in place measurement frameworks to gauge the success of those improvements and see that they return sufficient value. The central theme of being a true business partner is transformation (Boyle M. and Gaynor P., 2008). Through continual priorities and changes in the project portfolio, the CFO can make some adjustments that keep resource

utilization aligned with business strategy. In addition, updating capabilities, tools and skills within finance on a continuing basis, they can increase efficiency.

Strategists

With respect to formulating strategy, it may be true that, especially in larger organizations, only the more senior-level finance professionals are actually involved in creating or formulating the organization's strategy (Thomson, 2008). Actually, for a successful strategy, every worker at every level need to understand how their everyday work activities contribute to strategy. Strategic competency requires that the CFO focus on growing the business and returning shareholder value. The CFO is maybe the closest person to the chief executive officer (CEO) in the enterprise and he is always there whenever business strategy is discussed. The CFO must be a leader in the creation and use of information across the enterprise, including business intelligence and performance management techniques, to provide robust planning and forecasting, predictive analytics, and results monitoring (Boyle M. and Gaynor P., 2008).

RESEARCH

The survey sheets with 20 questions (except demographic information) were used for 500 people. They were workers in 37 different firms (banks, intermediaries etc.) in finance sector. The effective sample size of the study is 384. On the other hand, some data were also collected through face-to-face interviews with the CFOs of firms in the Turkish markets. The constructs in the study are developed by using measurement scales. The survey has three parts. First part is about demographic and general questions. Second part investigates the opinions and thoughts about the trust to financial leaders. Third part tries to find out how people think about the financial leaders to get out of the crisis. Five Likert Scale is used in second and third parts. The scales are

- I strictly disagree=1
- I disagree=2
- I have no idea=3
- I agree=4
- I strictly agree=5

First Part of Survey

Table 1: Sex Classification

	Frequency	Percent
Male	262	% 68.2
Female	122	%31.8
Total	384	% 100

Table 2: Education Level According to Sex

Education Level	General		Female		Male	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Primary-Secondary	0	0	0	0	0	0
Lycee	55	%14.3	17	%13.9	38	%14.5
Bachelor or more	329	%85.7	105	%86.1	224	%85.5
Total	384	%100	122	%100	262	%100

Table 3: Distribution According To Age

Age	Frequency	Percent
Less than 30	73	%19
30-39	161	%41.9
40-49	111	%28.9
50-59	39	%10.2
Total	384	%100

The first part of the survey, as mentioned, is about demographic characteristics. 262 (%68.2) of the participants are male, while 122 (%31.8) of them are female. The education levels of the participants according to their sex are given in Table 2. It is seen that most of the participants (%85.7) have at least bachelor degree. Since the firms in finance sector usually prefer to hire high educated people, there are no primary-secondary school graduates; they are at least graduated from Lycee. The ages of the participants are given in Table 3. Most of the participants (%41.9) are in the 30-39 years group. %19 of them are younger than 30 years and %28.9 of them are between 40-49 years. It is seen that almost % 90 of the workers are younger than 50 years. We can say that rather dynamic people are preferred in this sector.

Second Part of Survey

TRUST TO FINANCIAL LEADERS	Average
1. Financial leaders deserve to be trusted.	2.02
2. Financial leaders are innocent on the current global crisis.	1.99
3. Personal expectations of financial leaders played no role in global crisis.	2.09
4. Economic system did not force financial leaders to make mistakes.	2.15
5. Financial leaders care enough about institution interests.	2.57
6. Financial leaders care enough about workers interests.	1.98
7. Financial leaders care enough about country interests.	1.99
8. Financial leaders take no high risks before crisis.	2.01
9. Financial leaders were not aware of forthcoming crisis.	2.44
10. Financial leaders gave no misinformation during crisis.	2.31
11. Financial leaders were helpful about market information before crisis.	2.65
12. The current global crisis caused no decrease in the level of trust to financial leaders.	2.09

Looking at the answers given to the statements above, we can say there is a decrease in the level of trust to financial leaders. Considering that the participants are working in the finance sector, the results might be reviewed more outstanding. Especially, we can say, people do not believe that financial leaders think of the interests of workers and they do not think that they are innocent on the current global crisis. Not directly asked in the survey; but we witnessed during conversations with participants, it was clear most of them had the fear that they could lose their jobs during these days because of the crisis.

Third Part of Survey

SOLUTION TO CRISIS	Average
1. Financial leaders took lessons from the global crisis.	3.5
2. Financial leaders can help to get out of the global crisis.	2.4
3. Financial decisions of firms cannot affect the levels of unemployment.	2.1
4. No need for financial leaders to make more transparent decisions in the future.	2.1
5. No need for a new mechanism for coordination in financial markets.	2.5
6. No intensive control of financial leaders needed after crisis.	2.0
7. No need to reconsider the whole financial system.	1.8
8. No need for financial leaders to change their mindset.	1.9

Considering the results taken from the survey above, we can say people think that financial leaders took lessons from the crisis, but it is not easy to say that they believe they could take us out of it. It is also obvious that financial leaders should change the way of leading they were doing before. During interviews with CFOs, it is noticed that they were aware of the decline of trust and admit their faults, but still they think “only they” can take people out of the crisis. In addition, they say that their intensions were good and what they were doing, they thought, would be profitable for everyone.

CONCLUSION

We can say that the survey shows the financial leaders and the whole financial system can play a serious role to get out of the global crisis, but there are some changes to be made. First of all, there should be a change of mindset. Taking lessons from the current crisis, the financial leaders should place the interests of their institutions and society as a whole above their own interests. In order not to repeat the mistakes in the future, after changing the mindset, most probably a new leadership is needed.

As mentioned above, the CFOs think “only they” can take people out of the crisis. This might be true, because the skills they have, do not develop by accident. They are built over time by a sustained, focused program of financial leadership that invests continually in people, processes and technologies financially (Boyle M. & Gaynor P., 2008). They took risks, but maybe they had no other choices. Common sense managers see risk-taking as a natural prerequisite for success (Wartburg, 1991). We should keep in mind that CFO turnover is higher than ever nowadays.

Taking all the matters mentioned above into consideration, too, the leaders of institutions of international finance, today’s policymakers and finance ministers can find the right way somehow to get out of global crisis.

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MANAGEMENT MEASURES TO BE TAKEN FOR THE ENTERPRISES IN DIFFICULTY DURING TIMES OF ECONOMIC CRISIS

Sudi Apak
Beykent University, Turkey

Mikail Erol and Gülgün Erkan
Çanakkale Onsekiz Mart University, Turkey

ABSTRACT

After the liberalization of capital movements, Turkish Economy went through a crisis in 1994. The process has ended up with the IMF stability program and the stand-by arrangement with the IMF after the financial crises on November 2000 and February 2001. The reason for the financial crisis that intensified in October 2008 in USA was the low-income housing policy of the USA government. The sliding currency policy implemented by USA before the crisis was misdirected.

In connection with the global crisis, there has been an economic recession in Turkey towards the end of 2008, and unemployment rate has increased rapidly albeit the economic stimulus packages proposed. Despite a leastwise stability in Turkish markets, the socioeconomic outcomes of the crisis have become more serious.

While those events in economy impacted upon the whole business world, small enterprises had great difficulties. Especially the ones that were taking debt in foreign currency went bankrupt.

In this paper, we discuss the measures to be taken for the enterprises in difficulty during times of economic crisis.

Keywords: *economic crisis, enterprises in difficulty, management measures*

INTRODUCTION

The failing of a firm under the circumstances of economic crisis encompasses a process including situations ranging from a firm's inability to administer its current account responsibilities for temporary causes to bankruptcy.

Measures to be taken for the improvement of the financial situation of a failing firm differ in accordance with the level of the enterprise's financial distress. Management can help and guide the enterprises in difficulty during times of economic crisis in certain ways with the aim of helping them survive.

Apart from the introduction, our study is divided into four parts. The first part deals with "Enterprises During Times of Economic Crisis", the second part with "Signs of Failure in Enterprises in Difficulty", the third part with "Decisions Made by Enterprises", and the fourth part with "Management Measures".

ECONOMIC CRISIS AND THE ENTERPRISES

Turkey took a remarkable step in foreign expansion policies with transition to convertibility in 1989. After the liberalization of capital movements, Turkish Economy went through a significant crisis in 1994. The

inflation increasingly reached %150, and Turkey entered into an economic recession. Right after these, the crises experienced in global economy (November 1998 Crisis and the Asian Crisis) influenced Turkey deeply.

Crisis means depression and despondency (Biçer, 2008: 90). Crisis is the tension which is unexpected and unforeseen, which threatens the existing values, aims and assumptions by making protection, prevention and adjustment mechanisms insufficient and which should be responded to immediately (www.forumpedi.net/halkla_iliskiler_ve_iletisim/kriz_nedir_2619.html). Crisis is the significant decrease of national income in a short time. Long-term crises are named as depression. Minus %1 growth is recession. Crisis arises from the divergence of real and unreal economy. Another definition is the divergence of financial and physical economy (<http://hurarsiv.hurriyet.com.tr/goster/haber.aspr?id=3708792yazanid=171>).

Economic crisis, on the other hand, is defined as the macro-economic depressions occurring during certain times unexpectedly or as the result of insufficient or wrong managerial decisions (Apak, 2009: 6). Another definition is the recession or depression in which an economy can not develop with its own resources and regresses (www.incefikir.com/index.asp?id=56888/).

Increases in the public sector borrowing requirement also led to the deepening of the crisis. The stand-by agreement signed with IMF in the beginning of 2000 was an effort to re-stabilize economy in the following three years. According to the agreement, the foreign exchange rate was to be determined as “peg”, and at the end of the first year an inflation rate which will be in harmony with the foreign exchange rate was to be fixed. At the end of the second year, it was to be permitted to move within the band regime (Erol, 2008: 1521).

In order to struggle with inflation, the structural harmonization programs were to be implemented in these three years. However, the program could not be implemented as planned. In November 2000, i.e. towards the end of the first year, a crisis emerged. Although there were efforts to escape it with little harm for a short period time, in February 2001 the ongoing stability program and the stand-by agreement with IMF ended due to the crises in the financial sector. Foreign exchange rate was freed under open market conditions and in a very short period of time Turkish Lira was devaluated at a high rate. All these economic events influenced all the enterprises, especially the small ones (Erol, 2008: 150).

In October 2008 the financial crisis that originated in USA influenced the whole world and all the sectors. The crisis influenced also Turkey where massive dismissals, bankruptcies occurred and businesses were closed. Both crises in economy and enterprises in difficulty have dominated the agenda in Turkey.

Phases of the crisis

In enterprises, crisis can occur in four different and distinct ways. Crises in enterprises consist of initial crisis phase, acute crisis phase, chronic crisis phase and recovery phase (Çetin, 2009: 1184).

Initial Crisis Phase: If there are warning signs of the crisis, this is the initial phase. In many examples, this phase is the turning point. If the turning point, i.e. the initial phase of the crisis goes unnoticed acute crisis emerges. In the initial crisis phase the enterprise should recognize the signs of the crisis and take measures accordingly. Irrespective of the signs in the initial crisis phase, the crisis management gets easier if they are noticed in due time.

Acute Crisis Phase: In many aspects, this is the phase in which it is impossible to return to the previous situation. The signs disappear and when an enterprise enters the acute phase it is impossible to regain what is lost till then. The degree of the subsequent damage depends on the management. The acute crisis phase is the phase when crisis is made a current issue.

Economic Crisis Phase: It is the period in which enterprises try to repair the damages of the crisis. For this reason, it is also called cleaning period. In this phase there is recovery, enterprises make analysis and they have suspects.

Recovery Phase: During this last period the enterprises observe the outcomes of the efforts to control the crisis. In the beginning of the initial phase, the crisis manager should find the direct and appropriate control mechanisms for resolving the crisis. In general, managers pay more attention to the acute and chronic crisis phases and think of recovering as fast as possible and ways of avoiding other possible crises.

SIGNS OF FAILURE IN ENTERPRISES IN DIFFICULTY

Signs of failure in enterprises in difficulty during times of economic crisis can be explained as follows (James, 1997: 1):

a- Economic Failure: It is possible to mention economic failure when operating incomes are less than total costs.

b- Company Failure: It happens when an enterprise can not meet its obligations to its creditors (Zenoff and Zwick, 1969: 127). In this respect, economic factors include choosing a wrong place and the circumstances of the industry, financial factors include high level of debt and inadequate capital and experience factor includes management and inexperience.

c- Technical Bankruptcy: An enterprise goes technical bankrupt when it can no more meet its obligations in due time and can not pay its due debts.

d- Bankruptcy: If the book value of an enterprise's obligations is more than its assets' market value, liquidation of the firm comes up.

DECISIONS MADE IN THE ENTERPRISE

Decision can be defined as a judgment reached after thinking on an issue or problem or as the policy adopted from among others in an institution, enterprise or in politics (www.cep-x.com/cep-x-sozcuk/138034-karar-nedir-karar-anlami.html). To make a decision is to choose the best among the existing options to solve a problem (Can and Tuncay, 1991: 291). Decision-making processes are divided into following groups: decision-making in risk environment, decision-making in uncertainty environment and decision-making in certainty environment.

On the other hand, we can group the types of decisions to be made by the enterprises under three titles (Ansoff, 1965: 9):

a- Strategic Decisions: These are the strategic decisions related to the existing and future system of an enterprise. Generally, these decisions concern the outside environment of the enterprise. Decisions about production and marketing fall under this category.

b- Administrative Decisions: These are the decisions related to the management of the enterprise. They concern the structure of the organization, charges and responsibilities, workflow, information flow and distribution.

c- Operating decisions: Production-oriented decisions made in the existing administrative processes including pricing to maximize profit, settling marketing strategies, determining the production methods and stock levels.

MANAGEMENT MEASURES

Management is the art and science of performing work by means of others (Can and Yaşar, 1995: 75). According to another definition, it is the coordination of the resources of an organization in order to attain a goal (Yüksel, 2003:58). Contemporary management techniques in enterprises include management for certain purposes, total quality management, exchange engineering, analogy and learning organizations (Yüksel, 2003: 88). Besides these, expectations from management especially during times of economic crisis can be explained as follows (Çetin, 2009: 1186-1188):

Strategic measures

Swot Analysis: By means of swot analysis the strengths, weaknesses, opportunities and threats of an enterprise and its state before and during the crisis can be evaluated, and the panic-stricken enterprise can be put at ease.

Barter system: In simple terms, barter is an exchange. According to its broader definition, barter is a modern and comprehensive funding tool (Örten, 1998: 10-11). By means of barter system, during the time of an economic crisis, an enterprise can secure its liquidity, have the opportunity to receive interest-free commodity credit, increase its competitive advantage in marketing, gain new customers, increase its profit, convert deferred claims into cash and take measures against inflation (Baysal, 1994: 11-14).

Planning: Managers should ascertain the state of the enterprise carefully. To achieve this aim, they should clearly determine what they will do and where they want to be in the middle and long-term and they should watch economic data closely. In this way, in case of an economic crisis, enterprises can implement their measures.

Product Diversification: In parallel with the plans of the enterprise, marketing goals should be determined according to the product groups. Profit goals, market share, product diversity and field of business activity should be pre-determined and measures should be taken accordingly.

Human Factor: No matter how developed an enterprise's technological infrastructure, it is human being who will take these opportunities and make the enterprise successful. For this reason, employees should be minded and continuously motivated. Otherwise, the enterprise might lose its staff in a small crisis.

Customer Satisfaction: The enterprise should exercise all due diligence to protect its reputation and should sustain close customer and public relations. Especially during times of crises, it should not restrict its customer services. Even a minor error in this respect might affect the future success of the enterprise adversely.

Cost-cutting measures

During times of crises, one of the biggest problems of the enterprises is liquidity shortage. Thus, measures to increase the liquidity of the enterprise should be taken. These measures include cutting the costs, avoiding unnecessary costs and to economize (Çetin, 2009: 1186). Cost-cutting measures are as follows:

Suspending Production: If there is less consumer demand than the supply of the enterprise and build-up of stocks, production might be suspended in order to avoid production costs and deplete stocks.

Downsizing of the Enterprise: The enterprise might maintain its activities in the fields where it is successful and suspend them in the fields where it is weak and, by this way, can avoid the related costs.

Cutting Cost of Raw Materials: If the import costs of the enterprise are high and if the price of currency increases, import inputs can be cut and these inputs can be obtained from domestic market, if possible. Alternative sources of raw materials can be searched and cost of raw materials can be reduced.

Cutting Staff Costs and Number: During times of economic crisis, without damaging the internal discipline in the enterprise, the number of staff can be decreased gradually when there is a decrease in enterprise's production due to the shrinkage in the domestic and foreign market.

Adjusting Staff Salaries: Staff salaries can be frozen, and if the crisis gets worse staff salaries can be reduced with the consent of the staff, overtime and social assistance payments can be cut.

Cutting General Expenses of the Enterprise: Expenses of travel, hotel and business trips can be reduced without disrupting workflow, freight costs can be reduced, public transportation can be used in order to minimize fuel costs and stationery, electricity, water and telephone costs can be reduced.

Cutting Interest Expenses: Interest expenses of the enterprise might be cut by paying all credits in due time.

Suspending Investments: The enterprise might suspend optional investments in order to cut cash output for these investments and stop making new investments.

Measures to accelerate cash flow

During times of crisis an enterprise, the financial structure of which is damaged and which is having difficulty in meeting its obligations, should take measures to accelerate cash flow along side taking measures

to cut its costs in order to recover. The aim is not to liquidate the firm but to ensure its survival (Akgüç, 1994: 917-919).

Extending Debt Maturity: Due to temporary reasons like crisis, a firm might be in a difficult financial situation. In such a case, it would be wiser for the creditors to extend the debt maturity instead of having recourse to law, which would result in the liquidation or bankruptcy of the firm.

Consolidating Debts or Refinancing: Consolidating debts or paying debts via borrowing new debts under more convenient circumstances is another method of extending debt maturity.

Creditors might Disclaim Certain Amount of Credits via Amicable Settlement: Indebted enterprise might make creditors disclaim certain amount of credits via amicable settlement and with the condition of paying some part of the credits. It would also be wiser for the creditors to disclaim certain amount of credits and to receive a partial payment, instead of receiving nothing.

Re-arranging and Strengthening the Capital Structure of the Firm:

The capital structure of the firm might be re-arranged in order to increase equity capital and to alleviate its fixed responsibilities. Measures to be taken in order to re-structure the capital might be:

- To allow capital participation in lieu of debts
- To give shares in lieu of equities
- To take new sharers
- Changing equities with fixed interest load with shared equities
- Reducing equity interests

Revaluation of Assets: Revaluating assets and using value increase to meet the deficit does not provide the firm with new resources but help the firm to find new resources.

Selling Fixed Assets and Long-Term Leasing: Selling fixed assets and long-term leasing enables the firm to benefit from the service of fixed assets and to maintain its activities along with providing the firm with new resources. The firm can pay short-term debts and strengthen its capital structure.

Converting Shares and Fixed Assets into Money partially or fully: Converting shares, if any, into money partially or fully can strengthen the financial structure of the firm. One function of sharing is that it can be used as resource in case of unexpected situations.

Converting Debts into Security: The firm can pay back its short-term bank credits by putting securities and equities on the market. In a crisis, it is difficult for an enterprise to sell securities on the financial market. However, creditor banks can achieve this by giving guarantee for paying.

Proposing a Composition: Composition is the partial disclaim of credits. It resembles disclaiming certain amount of credits via amicable settlement in terms of its outcomes. Composition is an agreement which is made between debtor and most of its creditors, the provisions of which becomes valid upon the approval of the commerce court and according to which unprivileged creditors disclaim a certain amount of their credits and the debtor gets rid of its debts by paying the amount of debts accepted in the composition.

Changing the Financial Status of the Firm: If the enterprise has one owner, transition to ordinary share, or if the firm is a company, changing the type are measures that can be taken to strengthen the financial structure of the firm. Different types, especially joint-stock company type, can have superior aspects in terms of providing the company with financial opportunities.

Merging with or Joining Other Firms: During times of crisis, a firm's merging with one or more firms and forming a new type of enterprise is another measure that can be taken in order to fix the financial structure.

Selling Some Enterprises Partially or Fully: If an enterprise has more than one enterprise it can sell some of them partially or fully and can fix the financial structure of the remaining enterprises with the resources to be obtained by this way.

CONCLUSION

Economic crises experienced from time to time in Turkey have left enterprises in difficult situations and especially small enterprises have been affected directly.

In the last decade, financial instability has been a characteristic of world economy and sequential, short-term crises have made lasting impacts on the real economies of especially developing countries. Apparent impact of the economic crises occurs in the financial markets while the real impact occurs in the real section.

In order to struggle with the crisis, Turkey should set an anti-crisis agenda and implement it immediately. Managers of enterprises should take necessary management measures in order to struggle with the crisis. Furthermore, during times of economic crises, professional associations should help business world and give financial and consultancy support to the enterprises.

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DIFFERENTIATED MARKETING POLICIES IN TERMS OF COMPANY SIZE AND SECTOR DURING GLOBAL RECESSION

**A. Kazım Kirtiş
Filiz Karahan
Çanakkale Onsekiz Mart University, Turkey**

ABSTRACT

The main aim of this study is to investigate whether perceptions of marketing managers of and responses to the global recession differentiated among the companies in terms of the company size and sector. It is clear from the former literature that both consumers and companies change their perceptions, attitudes and behaviours during economic hardship. In this research, it was searched what the meaning of current economic situation after the 2009 global recession to marketing decision makers is, what the effect of the present economic conditions on marketing decisions is, what kind of arrangements marketing decision makers are doing and how differ all these perceptions and activities according to the company size and sector. In the study, totally 95 firms were surveyed, including 30 large industry firms, 30 large service firms and 35 small firms. According to the results of the surveys, there are some significant differences between large industry and large service firms as well as small firms and large industry firms in terms of their responses to the current economic situations after 2009 global economic crisis while their perceptions of crisis and the impact of the crisis on their companies does not differentiated according to their size and sector.

INTRODUCTION

The last global economic crisis arised from the global banking crisis which stems from subprime mortgage credits and appeared first in the US and then affected almost all countries in the world (Batirel, 2008;1). This crisis made worse the effects of Asia Crisis which the globe has not fully recovered from. Thus the world economy moved towards recession which is identified as fact of decreasing demand for raw materials, products and services (Shama; 1993). In the US and EU countries, a recession is identified as at least two quarters of a decrease in real GDP (Srinivasan et al, 2005;110) and recessions can firmly affect the performance of whole economic sectors (Cundiff, 1975; 2, Shama;1993;64, Srinivasan, Rangaswamy and Lilien, 2005; 109, and Quelch, 2008; 1).

The recession like other economic crises affect consumers' perceptions and behaviours (Kotler, 1973;43, Kelley and Schwee, 1975;45, Cundiff, 1975;1, Shama, 1978;46 , 1993;6 and Shapiro, 1985;28). Related literature stated that consumers change their perceptions, preferences and purchasing behaviours during economic downturn, in recession in particular (Shama, 1978;45, Ang et al , 2000;98, Ang, 2001;6 and Na et al, 2003;48). For this reason, marketers need to adjust their strategies according to these changing perceptions and behaviours (Shama, 1993;63).

During the recession, marketing function plays a crucial role in a lots of decision areas (Cundiff, 1975;1). The decisions sometimes may be important for their survivals (Torlak, 2005;41) and sometimes to stay profitable and consumer-responsive (Shama, 1993;64) while some firms view the recession as an opportunity to develop (Srinivasan et al, 2005;110). This difference may be relevant with the insights of the companies regarding the recession or the company size and sector (Shama, 1993; 65). Eventually, it can be said that the recession may affect firms in a different size and sector and marketing decision makers get diverse strategic measures to adopt changes in economic milieu (Shama, 1993;63).

After all, this paper seeks to find out perceptions and responses of the marketing decision makers to the last global recession regarding the company size and sector in Turkey by measuring the followings:

1. The meaning of the current economic situation after the 2009 Global Recession to marketing decision makers

2. The effect of the recent recession on their marketing decisions
3. Their adjustments in marketing strategy and activities regarding the global recession.

Another purpose of this paper is to make recommendations to marketing decision makers and whole economic players as well as marketing academicians. Performed the aims of this paper, the research will be a connection between the companies and scholarly marketing literature.

LITERATURE REVIEW

Some researchers defined the relationship between the recession and marketing related issues in the literature (Yang, 1964;26, Cundiff, 1975;1 and Coulson et al, 1980;99, Shama, 1993;63; Srinivasan et al, 2005;112, Quelch, 2008;1). Recession was defined as a situation in which the demand for a product is less than its previous level by Kotler (1973) and as decreasing demand for raw materials, products and services, including labour by Shama (1978;45). The next researches (Goodell and Martin, 1992;7, Shama, 1993;64) remarked again similar but limited issues of the recession and marketing relationship. Companies' various responses to the recession were also stated in Barwise's various studies (Barwise, 1999;10, Barwise and Styler, 2002;6).

Cundiff (1975;1) and Srinivasan et al (2005;112) stated that some companies fall down during recession while some others prosper and even develop. Various researches indicates that the firms investing during recession may get considerable benefits (McGraw-Hill Research, 2002; Strategic Planning Institute, 2002). Some researches reveal the results of proactive marketing strategies during economic downturn (Teece et al, 1997;512, Srinivasan, 2005;113). On the other hand, lots of firms severely reduce the marketing expenditures in economic downturn and firms may be also forced to fire some of their employees, or diminish wages (Cundiff, 1975;1).

During a recession, consumers are spending less and saving more of their income (Cundiff, 1975;1) and they become value-oriented (Quelch, 2008;1). There are many other researches indicating that consumers change their purchase behaviours regarding all marketing mix elements during economic distress (Shama, 1978;45 Milanova, 1999;426, Ang et al, 2000;99 Ang, 2001;7). There are several indicators which measure consumers' attitudes toward the economy as a whole and perceptions in particular. These measurements may differ according to the countries. The Survey Research Center's Consumer Sentiment Index (CCI) and The Conference Board's Consumer Confidence Index (CCI) are two of them used in the US (Shama, 1993; 62). In Turkey, Consumer Confidence Index shows the general tendency of consumers toward economy.

As a reaction to these shifts, many changes also occurred on the firm side. Quelch (2008;1) underlined eight factors four of which are maintaining marketing spending, adjusting product portfolio, supporting distributors and adjusting pricing tactics which firms should take into consideration during the recession. Besides, Bonoma (1991;10) recommended to marketing managers about the recession as marketing practices to avoid 'empty middle' marketing, not to mistake expansiveness so much, "*do more for less and remember and what winter is like when summer again comes*". It is specifically emphasized that marketers use considerable more coupons in marketing mix to battle the negative effects of the recession and well-planned promotion, product policies and quality are noteworthy issues for the firms during recession according to Cundiff (1975;1).

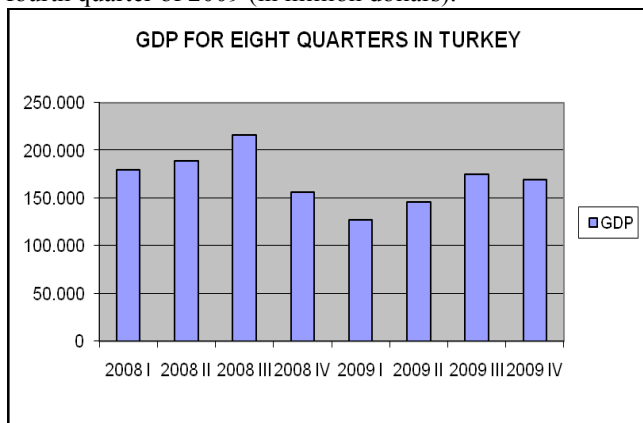
There are also important but limited researches about the recession and marketing relationship regarding company size and sector in the literature. A research reported that small companies are much more affected by recession (Feder, 1991;22, Torlak, 2005;43) and Shama cited from Bowers' (1991) journalistic literature that how small firms reduce their expenses in economic hardship. Torlak (2005;47) also stated that small firms should know how to adjust pricing, carrying out advertising policies and granting credit to customers. MarketingSharpa(2008) examined the marketing during a downturn on the other hand, reported that mid-size companies and manufacturing companies in particular, experience more hardship. Beyond these studies, Mandel (1991;60) and Shama (1993;65) who benefited from journalistic literatures of Pearlstein (1991), Stout (1990) and Nasar (1991) published in several journals investigated effects of recession in service sectors.

Recession in Turkey

Recession was felt since the last quarter of 2008 in Turkey and recently a recovery is felt by various economic signs. The financial indicators confirmed that Turkish economy has been severely affected by the recession and then have just leant to rise again. The unemployment rate was recorded at 11,6% in January

2008 while the rate increased to 15,5% by January 2009 while decreased to 14,5% by January 2010 as well as Monthly Industry Production Index declined 20,9% during February 2009 comparing with February 2008 and it increased again 18,1% by February 2010 comparing with the last year (TurkStat). Table 1 also shows the fluctuation in GDP amounts from the first quarter of 2008 to the last quarter of 2009 in Turkey.

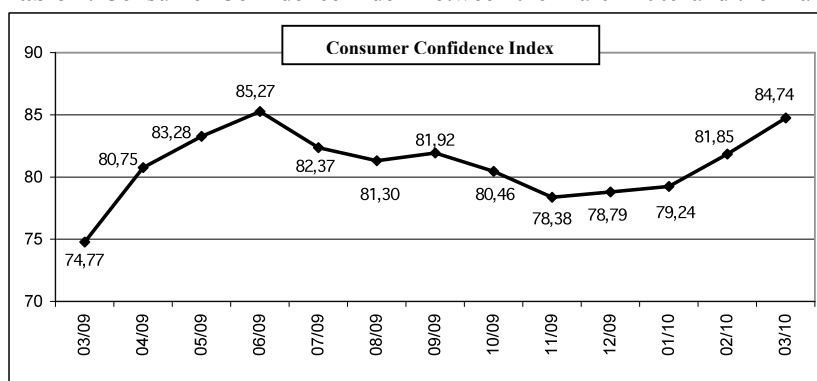
Table 1: Gross Domestic Products for Eight Quarters in Turkey between the first quarter of 2008 and the fourth quarter of 2009 (in million dollars).



Source: TurkStat, <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=6219> (19.04.2010)

Table 2 reveals that consumer confidence index (CCI) decreased by June 2009 and increased by January 2010 in Turkey. This graph also confirms general tendency regarding consumers' common attitudes towards economy.

Table 2: Consumer Confidence Index Between the March 2009 and the March 2010 in Turkey



Source: TurkStat, http://www.tuik.gov.tr/PreTablo.do?tb_id=21&ust_id=7 (19.04.2010)

Firms adjust their strategies in terms of consumers' attitudes and behaviours so it's expected that firms' general insights are in company with the fluctuation of general economic indicators.

Company-Size Level

Companies with different size may face to different economic environments depending on their target markets and market power. Larger firms usually have more market power which may help them weather the economy has bad effects on their functions (Shama, 1993:67). However, a small business might have a small market niche which can protect it during a recession while other small firms unable to borrow needed cash. Shama (1993; 67) examined the journals of Feder and Bowers in his study. Feder (1991) stated that especially small businesses are affected in the recessionary milieu, and Bowers (1991) stated how small firms are reducing their expenses in their journals. On the other hand, Marketingsherpa examined the issue of marketing during a downturn via a research carried out by itself (MarketingSherpa, 2008). It was surveyed whether the marketing budget and effect of downturn is changed in response to the economy through company size in MarketingSherpa Survey, 5;11).

Torlak (2005;41) emphasized that recessions initially become a threat for small firms regarding their scales and they should know to adjust pricing, advertising, selling promotions and granting credit to customers.

Shama (1993) reported that marketers in small firms and large firms perceive the economic situation differently. According to his findings, perception of economic conditions and perceived impact of economic climate as well as adjustments to the changing conditions vary by firm size.

Sector Level

The theory about sector-level studies is that different sectors may be experiencing different economic climates in the same economic milieu. Service sectors generally have been seen as developing sectors for many years. However, Shama (1993;65) reported that the service sectors are also in recession referring to journals of Nasar (1991) and Stout (1990).

Nasar (1991) stated that the service sector in the United States initially regarded as an engine for new jobs, is undertaking a wide cutting back, much as the industry sector did in the former decade. According to Nasar, such a cutting back characterizes service firms in retailing, financial services, accounting, real estate, and temporary help. Mandel (1991;61) also differentiated different service sectors, stating development in some firms and decrease in other firms. Pearlstein (1991) examined the recession in the financial sector as an example of recessionary pressure in the service sector.

Shama (1993;66) studied whether the marketers perceive the economic conditions and adjust their marketing activities differently in terms of their sector. He found out that there's significant difference between firms for perception of recent economic climate, perceived impact and adjustments in marketing activities in terms of firm size. Additionally, service firms are differentiated from industry firms regarding especially promotional appeal, spending relatively more on printed media, adding more distribution channels increasing market segmentation efforts, diversifying and reducing labour force.

To this end, in this study we constructed our hypotheses as:

H1: The subjective meaning of 2009 recession to marketing decision makers vary by company size, as small and large, and sector in Turkey.

H2: The perceived impact of the economic environment of 2009 recession on marketing managers vary by company size, as small and large, and sector in Turkey.

H3: The arrangements of marketing managers out of 2009 recession vary by company size, as small and large, and sector in Turkey.

RESEARCH METHOD

Sample

To test the hypotheses of this study, three samples of marketing decision makers in different sectors and different size companies were surveyed. There are three sample groups which are large industry firms, large service firms and small firms and their populations as can be seen below:

Sample 1: 60 randomly selected companies from Fortune 500: Large industrial firms

Sample 2: 40 randomly selected companies from Fortune 500: Large service firms

Sample 3: 60 randomly selected small business companies KOBİNET list: Small firms

Large industrial and service firms are selected from Fortune 500 Turkey list. KOBİNET includes the list of small and mid-size companies so small firms are selected from KOBİNET list.

Procedure

In this study, a scale developed by Shama (1993) was used. The scale including mostly close-end, Likert-scaled questions about the meaning of the present economic environment to them, the impact of this

environment on their firms and their marketing activities and their responses to the perceived economic milieu. Particular questions measuring the affect of and adjustments to recession were constructed, based on marketing literature (Kotler 1973, Shama 1978 and Shapiro 1985). There were totally 31 questions, 29 of which are Likert-scaled questions.

The scale was initially translated into Turkish then translated into English again in order to eliminate translation problem. Pair of marketing academicians was surveyed to control the comprehensibility of the expressions in the questions. Marketing managers were contacted by e-mail and follow-up phone calls to make sure of their cooperation in this study. Marketing managers agreeing to participate to the survey answered the questionnaire form.

The study reflects 59 percent response rate (95 marketing managers are divided by the total 160 marketing managers). For the subsamples, 30 marketing managers of total 60 managers in industry sector, 30 marketing managers of 40 managers in service sector and 35 marketing managers of 60 managers in small firms were responded in the survey.

Analyses

Nonparametric tests would be most appropriate tests for the first two hypotheses of the study that will examine how the marketing managers describe the present economic environment as their companies is concerned and what the impact of the environment is on their companies. There are 6 choices for the first question and three choices for the second one as positive, neutral and negative. Kruskal-Wallis Test was performed to analyze the difference between three groups which are large industry, large service and small firms. Analysis of variance, ANOVA, was also performed for the Likert type questions for a parametric test.

RESEARCH FINDINGS

Table 3 presents the perceptions of marketing managers (N=95) of the nature of the economic environment by sector. There's a clear difference between small firms and large firms while the responses of the managers can not differ by sector.

Table 3: Marketing Decision Makers' Perception of the Economic Environment (Total sample, N=95, in percentage)

How would you describe the present economic environment inso far as your company is concerned? (In percent)	Industry	Service	Small
1. Growth	18 (60%)	18(60%)	17 (48%)
2. Recession	3 (10%)	2 (7%)	2 (6%)
3. Depression	1 (3%)	3 (10%)	3 (9%)
4. Stagnation	8 (27%)	5 (16%)	13(37%)
5. Inflation		2 (7%)	
6. Other			
TOTAL	30	30	35

In Table 4, marketing decision makers' perceptions of the impact of the economic environment on their companies. There's again no significant difference between industry and service sectors. However, small firms seem more pessimistic regarding the impact of the environment on their companies.

Table 4: Marketing Decision Makers' Perception of the Impact of the Economic Environment on their companies (Total sample, N=95, in amount and percentage)

What has the impact of the environment been on your company? (In amount and percent)	Industry	Service	Small
1. Positive	13 (43%)	13 (43%)	6 (17%)
2. Neutral	6 (20%)	7 (23%)	12 (34%)
3. Negative	11 (37%)	10 (34%)	17(49%)
TOTAL	30	30	35

Table 5 and Table 6 present the results of ANOVA analyses. Table 5 indicates the means of the sector groups in terms of their responses to the questions about how much the present environment influenced their marketing strategies. Specific differences seem between the companies regarding company's size and sector.

Similarly, Table 6 presents the means of the sector groups regarding marketing managers' responses to the economic environment.

Table 5: The Results of Kruskal-Wallis Test for the First Question About the Description of the Marketing Managers the Economic Environment

Table 6: The Results of Kruskal-Wallis Test for the Second Question About the Impact of the Economic Environment on Companies

Test Statistics ^{a,b}	
	VAR00002
Chi-Square	1,288
df	2
Asymp. Sig.	,525
a. Kruskal Wallis Test	
b. Grouping Variable: VAR00001	

Test Statistics ^{a,b}	
	SORU2
Chi-Square	5,065
df	2
Asymp. Sig.	,079
a. Kruskal Wallis Test	
b. Grouping Variable: KOD	

The result of Kruskal Wallis Test is given in Table 5 for the answers of the first question. Kruskal Wallis is a nonparametric alternative test of ANOVA. Since the data on the first question is not parametric and there are more than two independent samples, Kruskal-Wallis is the best choice to analyze the answers of the second questions. According to the test results, there's no significant difference ($p \leq 0,05$) between the three sectors regarding their descriptions the economic environment as their companies are concerned. For this reason, the subjective meaning of 2009 recession to marketing decision makers do not vary by company size, as small and large, and sector in Turkey, adverse to the former literature, so H1 is not supported.

The result of Kruskal Wallis Test is given for the answers of the second question in Table 6. According to the test results, there's no significant difference between the three sectors regarding their responses given to the second question which searches the impact of the economic environment on their companies. Namely, the perceived impact of the economic environment of 2009 recession on marketing managers does not vary by company size, as small and large, and sector in Turkey so H2 is not supported.

Table 7: Results of ANOVA: The Impact of the Economic Environment on Specific Marketing Decisions

Overall, how much has the present environment influenced your....	Industry	Service	Small	F-Ratio	Sig
Competitive strategy	4,05	3,70	3,65	1,880	,158
Marketing strategy	4,37	4,26	4,11	,232	,793
Consumer credit policies	3,83	3,96	3,85	,972	,382
Selection of target customers	2,93	3,20	2,68	1,646	,198
Pricing decisions	4,13	4,16	4,37	,601	,550
New product introduction	3,62	3,76	3,74	,680	,509
Promotion budget	4,17	3,73	3,68	1,413	,249
Promotional (advertising) appeal	4,03	4,13	3,57	,605	,548
Sales employees	2,41	2,43	2,97	4,979	,009
Selection of promotion media	3,37	2,66	2,40	7,654	,001
Public relations	3,34	2,76	2,02	11,906	,000
R&D budget	2,55	2,53	3,31	5,370	,006
Distribution of your product(s) or service(s)	2,13	1,53	1,94	2,877	,061

According to the results of ANOVA tests, the marketing managers in the three different groups of companies vary regarding influence degree of present economic environment to their companies in terms of sales employees, selection of promotion media, public relations and Research and Development budget issues. Marketing managers in large companies state that present economic environment selection of promotion media and public relations. However, small firms state that present economic environment sales employees and research and development budget significantly different from the other sectors.

Table 8: Results of ANOVA: Marketing Managers' Response to the Economic Environment

To what extent did your company engage in each of the following measures in response to the present environment?	Industry	Service	Small	F-Ratio	Sig
Changed marketing strategy	4,03	3,70	3,85	1,195	,307
Increased strategic planning efforts	4,55	4,16	4,02	2,773	,068
Loosened customer credit	3,73	3,43	4,11	4,155	,019
Modified target markets	2,85	2,96	2,62	1,155	,320
Used more price incentives	3,63	3,53	4,20	3,004	,054
Added new products or product lines	2,53	1,76	1,40	16,783	,000
Pruned some product lines or products	2,55	1,76	2,17	7,168	,001
Increased promotional budget	3,34	2,16	1,65	23,361	,000
Changed promotional appeal	3,83	2,66	2,22	13,348	,000
Used more sales promotion	3,53	3,20	3,77	2,126	,125
Spent relatively more on radio and print ads	2,83	1,86	1,88	11,018	,000
Reduced R&D budget	2,24	2,26	2,91	4,872	,010
Added more distribution channels	1,72	1,53	1,22	5,593	,005
Increased market segmentation efforts	2,37	2,13	1,62	4,774	,011
Diversified into other products or businesses	2,05	1,90	1,97	,190	,827
Reduced labor force	2,17	1,80	2,42	3,491	,035

Marketing managers also vary in terms of their response to the changing economic environment. Marketing managers in small firms have much more tendency to loosen customer credits while the marketers in service firms are not reluctant for this. On the other hand, large industry firms positively look at adding new product or product lines as well as prun some product lines or products while the marketing managers in small companies don't. Additionally, the marketing managers increase their promotional budget and change the promotional appeal significantly much more than the marketers in small companies. Marketing managers in large industry companies spend much on printed advertisement and increase their market segmentation efforts comparing with the service firms and small firms. On the other hand, small firms reduce their research and development expenses and reduce their labour force relatively. For this reason, H3 is partially supported.

Table 9: Result of Reliability Analysis

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,935	,937	29

For evaluating the internal consistency of the present study, reliable analysis was performed based on the Cronbach Alpha coefficient Method. As known, the minimum value of Alpha coefficient is expected to be 0,7 on descriptive research (Hair et al, 1998). The results presents in Table 9 that the level of internal consistency of this study is satisfactory, with 93 percent.

CONCLUSION AND DISCUSSION

The last global economic recession severely affected the whole world and Turkey in particular. Consumers' attitudes and behaviours change during economic hardship including recessionary climate. Many reseraches confirm that consumers have different purchasing behaviours in a recession and several economic indicators like Consumer Confidence Index support this insight.

Marketing strategies play a key role during a recession and other economic crises. Marketers should adjust their companies' marketing strategies to the changing economic milieu. However, their descriptions of present economic conditions and perceptions the impact of the economic climate on their companies may not be similar regarding company size and sector. Former studies reveal that there are significant differences between the companies' marketing strategies during economic hardship in terms of their size and sector type.

This study examined how marketing managers perceive the present economic conditions regarding as their company, what the effects of it on companies as positive, negative or neutral and what kind of marketing policies they apply and the responses vary according to the company size and sector.

Findings don't fully support the study's hypotheses. under the present economic conditions in Turkey, according to the answers of 95 participants, more particularly, findings are that:

1. The meaning of the present economic conditions to marketing managers doesn't depend on company size and economic sector.
2. The perceived impact of the economic environment doesn't vary with the size of the company and by economic sector.
3. The marketing managers in the three different groups vary regarding influence degree of present economic environment to their companies in terms of sales employees, selection of promotion media, public relations and R&D budget issues.
4. Marketing managers in large companies stated that selection of promotion media and public relations is relatively much more affected by the present economic environment.
5. Marketing managers in small firms state that they have been relatively so much influenced by the present economic environment through their sales employees and R&D budget.
6. Marketing managers in small firms have much more tendency to loosen customer credits while the marketing managers in service firms are not reluctant for this.

7. Large industry firms positively look at to add new products or product lines as well as prun some product lines or products while small firms don't.
8. Large industry firms increase their promotional budget and change promotional appeals significantly much more than small companies do.
9. Marketing managers in large industry companies spend much on printed advertisement and increase their market segmentation efforts comparing with the service firms and small firms do.
10. Small firms diminish their R&D expenses and reduce their labour force much more than large firms.

As a result, it can be said that marketing managers in large industry firms, service firms and small firms perceive the influence of the present economic environment different from each other. Similarly, there's again no significant difference among their perceptions of general economic environment regarding their firms. However, there are some significant differences especially between small firms and large firms regarding influence of the economic environment on specific marketing decisions and their adjustments to the economic environment.

Large firms with broader financial sources may act more independently. Because they especially don't cut back their R&D budget, they can invest in new products or product lines. Besides, they don't diminish promotional budget in economic hardship so they may enjoy benefit. On the other hand, small firms cut back their costs, R&D and human resources in particular during economic downturn. They actually may go collaboration with other small firms to profit from scale economy and then they may invest in new products, services not to lose competitive strategy with the larger firms during economic downturn. Additionally, they may seek for niche markets as opportunity, to which large firms do not pay attention or miss. Small firms may go on their activities in such market areas as a way to survive and stay profitable during economic hardship.

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COMPETITIVENESS

MAINTENANCE MANAGEMENT IS NOW OF STRATEGIC IMPORTANCE: SO WHAT STRATEGIES ARE YOUR COMPETITORS USING?

**Kym Fraser
Janek Ratnatunga
University of South Australia, Australia**

ABSTRACT

Maintenance and its management has now reached the level of strategic importance in most medium to large organisations. Due to ever increasing pressures from customers companies can no longer simply rely on a 'repair as required' philosophy and hope to be successful in the long run. A strategic approach is needed to determine which maintenance model or system will best suit the organisation. A recent review of maintenance literature found that Total Productive Maintenance (TPM), Reliability-Centred Maintenance (RCM), and Condition-Based Maintenance (CBM) were the most popular maintenance management models discussed in academic journals. In this paper a comprehensive review of these three models is undertaken to identify empirical 'real world' examples of each model being used in industry. Further analysis is provided in the form of author's origin, research method, study country, sector and industry. The paper provides practitioners with a breakdown of the practical applications for each model in industry today, and academics, a point-of-reference for further empirical research efforts. For practitioners seeking to expand their knowledge of a particular model or how a maintenance management model may fit an organisation, listed references have been chosen for their practical links to present day organisations. In regards to the energy sector the review identified a number of power plants with RCM being the dominate maintenance model. In addition, the paper provides readers with a detailed description of the three models reviewed.

Keywords: *Maintenance management, total productive maintenance, reliability-centred maintenance, condition-based maintenance, literature review.*

INTRODUCTION

As competitive pressures intensify on organisations around the globe to be more efficient and effective a once peripheral management activity, maintenance, has now been given a central focus. Up until the recent past maintenance activities have been regarded as a necessary evil by the various management functions in an organisation (Cooke, 2003; Eti *et al.*, 2007). However, over the past 15 to 20 years, this attitude has increasingly been replaced by one which recognises maintenance as a strategic issue in the organisation. Eti *et al.*, (2006c, p.1237) state "Business leaders increasingly realise the strategic importance of the maintenance function for organisations". The role of maintenance in maintaining and improving the availability of plant and equipment, product quality, safety requirement and plant cost-effectiveness levels, constitute a significant part of the operating budget of manufacturing firms (Al-Najjar and Alsyouf, 2003).

According to Mobley (1990), between 15 to 40 percent (average 28 percent) of the total production cost is attributed to maintenance activity in the factory. In reference to the Nigerian electric-power industry, Eti *et al.* (2005, p.255) assert "maintenance costs over 70% of the total production expenditure". Wireman (1990) discussed how the cost of maintenance for a selected group of companies increased from US\$200 billion in 1979 to US\$600 billion in 1989, three-fold in just 10 years. With the advent of more automation, robotics and computer-aided devices, maintenance costs are likely to be even higher in the future (Blanchard, 1997).

The effective integration of maintenance function with engineering and other manufacturing functions in the organisation can help to save huge amounts of time, money and other resources in dealing with reliability, availability, maintainability and performance issues (Moubray, 2003). For most organisations it is now imperative they take opportunities via maintenance management programs to optimise their productivity, while maximising the overall equipment effectiveness. With increasing focus on just-in-time, quality and

lean manufacturing, the reliability and availability of plant are vitally crucial. Poor machine performance, downtime, and ineffective plant maintenance lead to the loss of production, loss of market opportunities, increased costs and decreasing profit (Cholasuke *et al.*, 2004). This has provided the impetus to many organisations worldwide to seek and adopt effective and efficient maintenance strategies over the traditional firefighting reactive maintenance approaches (Sharma *et al.*, 2005; Ahuja and Khamba, 2007).

For some critical need sectors such as energy, water, health and transport utilities maintenance takes on an even greater importance. Eti *et al.* (2007, p.202) explain “the reliabilities of power plants have become increasing important issue in most developed and developing countries”. The loss of electricity, clean water, health services and public transport due to unexpected failure is the cause of increasing customer and society dissatisfaction around the world.

While the importance of maintenance and its management to modern organisations is clear, questions still persist about what are the popular maintenance management systems and what empirical evidence is available to support these systems in practical ‘real world’ examples. In 2001 Ireland and Dale discussed the lack of empirical research in regards to the popular maintenance model, Total Productive Maintenance (TPM). They commented that in the early 1990s Western organisations started to show interest in TPM following on from their Total Quality Management (TQM) interventions. They argue that whilst there are a few publications on the subject, “there is little in the way of empirical study and analysis” (p.184).

The objective of this paper is to review the maintenance literature and identify empirical evidence for three popular maintenance management strategies in practice today, analysing the country, author, method, sector and industry that these models are being employed in around the world. While empirical analysis/reviews of the maintenance literature are rare, a recent study by Fraser (2009) found that three maintenance management models, Total Productive Maintenance (TPM), Reliability-Centred Maintenance (RCM), and Condition-Based Maintenance (CBM) dominated the maintenance literature. This paper will review these three models and the industries they are employed in including their use in the energy sector. The outcomes will provide practitioner and researchers with a practical insight of a business process which now holds significant strategic implications for nearly every organisation.

POPULAR MAINTENANCE MODELS REVIEWED

The following section will individually review the three most popular maintenance management models found in the literature, TPM, RCM and CBM (Fraser, 2009). The focus of review is to identify practical, ‘real world’ examples of maintenance models within the literature, therefore any articles of a purely mathematical nature, theoretically derived, or of a conceptual basis were not considered. The review involved all peer reviewed journals and textbooks available on the University of South Australia large database. This source included well respected databases such as Business Source Complete (EbscoHost), Emerald fulltext, ScienceDirect, Wiley InterScience, SAGE full-text collection and Compendex. These databases represent the major publishers in the maintenance field such as Elsevier, Emerald, Palgrave Macmillan, and Taylor & Francis. To keep findings as contemporary as possible, only articles published within the past 14 years (1995 – 2008) were reviewed and analysed. A description of each model is given followed by the corresponding table listing the empirical examples found in the literature.

Total Productive Maintenance (TPM)

The development of TPM began in Japan in the 1970’s where it proved to be very successful in enhancing the effectiveness and profitability of Japanese companies. TPM is now well accepted by Japanese industrialists and is attracting the interest of industrialists in several countries around the world.

Nakajima (1988, p.21) described it as “productive maintenance carried out by all employees through small group activities. Like Total Quality Control, which is company-wide total quality control, TPM is equipment maintenance performed on a company wide basis.” He continued to say that TPM was actually the new direction in production and added: “Now, with increasing robotisation and automation, it is more appropriate to say that quality depends on equipment. Productivity, cost, inventory, safety and health, as well as quality – all depend on equipment.” TPM, which organises all employees from top management to production line workers, is a company-wide equipment maintenance system that can easily support sophisticated production facilities. The ultimate objective of TPM is to keep both mechanical breakdowns and defects to zero.

According to Nakajima (1988), a more complete definition of TPM should take into account the following elements:

1. TPM aims to maximise equipment effectiveness (overall effectiveness).
2. TPM establishes a thorough system of productive maintenance extending the equipment's entire life span.
3. TPM is implemented by various departments (engineering, operations and maintenance).
4. TPM involves every single employee, from top management to workers on the floor.
5. TPM is based on productive maintenance through motivation management: autonomous small group activities.

Nakajima argued that zero defects and TPM have a common philosophy. While zero defects strive to prevent defects, productive maintenance in Japan has emphasised the importance of breakdowns for over 30 years. Since equipment failure is a type of defect, both zero defects and preventive maintenance, in effect, are preventive systems aimed at eliminating defects. Zero defects is particularly important in relation to just-in-time operations.

Zairi (1991) supported Nakajima's view of a common link between zero defects and TPM by arguing that zero defects aims at producing goods and services right at the first time and every time. This concept has mainly been people oriented involving changing workers attitudes towards the importance of waste elimination and producing goods and services to customer requirements in the context of customer-supplier chains. Total Productive Maintenance is an opportunity for achieving production of goods and services right first time. Indeed by determining process capability and ensuring process stability, inputs can continuously be converted into quality output with zero defects.

Zairi (1991) goes on to discuss the close relationship between TPM and Total Quality Management (TQM) and that a comprehensive maintenance policy was necessary for a successful TQM implementation. TQM can have a great impact on the operation and infrastructural decision making process. The planning, scheduling and control of operations depend largely on process capacity and capability. The latter two conditions can be provided by an efficient and effective TPM programme. Process capacity cannot be made available at the cost of quality and this decision lies with the responsibility of TPM personnel. Similarly, process capability may appear to be acceptable, but information based on predictive may reveal the process has to be corrected immediately to avoid major disruption later.

From the above, one can notice the strong link between TQM and TPM. To successfully implement TQM it is relevant to have a comprehensive maintenance policy. TPM is the vehicle by which such a maintenance policy can be formulated. According to Zairi and supported by Johnson (1995), the implications of TPM on TQM are numerous.

Another important objective of TPM, according to Nakajima (1988) and Kennedy (1994), is to strive for overall equipment effectiveness. To achieve overall equipment effectiveness, TPM works to eliminate the "six big machine losses" that are formidable obstacles to equipment effectiveness. They are:

Down time:

1. Equipment failure
2. Setup and adjustment

Speed losses:

3. Idling and minor stoppages
4. Reduced speed

Defect:

5. Process defects
6. Reduced yield

The life cycle cost (the cost incurred during the equipment's lifespan) required to maintain equipment at its optimal level is limited as a result of TPM. TPM strives to achieve overall equipment effectiveness by maximising output while minimising input, i.e. life cycle cost.

Ramesh *et al.* (2008, p.45) described TPM as being the "medical science of machines". It is widely used in manufacturing and recognised as a strategic weapon for improving manufacturing performance (Ahuja and Khamba, 2008c). The strategic outcome of TPM implementations is the reduced occurrence of unexpected machine breakdowns that disrupt production and lead to losses which can exceed millions of dollars annually (Gosavi, 2006).

To demonstrate how TPM is used in practical 'real world' applications, Table 1 lists the various empirical examples found in the literature between 1995 and 2008.

Table 1 TPM – Empirical examples in literature

Year	Author	Author Origin	Method	Study Country	Sector	Industry
1995	Yamashina	Japan	Descriptive	Japan	Manufacturing	Various
1995	Bohoris <i>et al.</i>	UK	Case Study	UK	Manufacturing	Automotive
1995	Sherwin & Jonsson	Sweden	Anecdotal	-	Manufacturing	General
1996	Al-Najjar	Sweden	Anecdotal	-	General	General
1996	McAdam & Duffner	UK/Ireland	Case Study	Ireland	Manufacturing	Semi/conduc
1996	Carannante <i>et al.</i>	UK	Comparison	UK/Japan	Operations	Foundry
1997	Jonsson	Sweden	Survey	Sweden	Manufacturing	Various
1997	Cigolini & Turco	Italy	Case Study	Italy	Manufacturing	Various
1997	Blanchard	USA	Descriptive	USA	Manufacturing	General
1997	Organ <i>et al.</i>	UK	Anecdotal	-	General	General
1997	Prickett	UK	Anecdotal	-	General	General
1997	Riis <i>et al.</i>	Denmark/USA	Anecdotal	-	Manufacturing	General
1998	Ljungberg	Sweden	Survey	Sweden	Manufacturing	Machinery
1999	Regan & Dale	UK	Case Study	UK	Foundry	Bearing
1999	Bamber <i>et al.</i>	UK	Case Study	UK	Manufacturing	Various
1999	Prickett	UK	Case Study	UK/Finland	Manufacturing	General
2000	Sherwin	Sweden	Anecdotal	-	General	General
2000	Cooke	UK	Case Study	UK	Manufacturing	Various
2000	Ben-Daya	Saudi Arabia	Anecdotal	-	General	General
2000	Bamber <i>et al.</i>	UK	Case Study	UK	Manufacturing	Installation/sys
2000	Al-Hassan <i>et al.</i>	UK	Anecdotal	-	General	General
2000	Yamashina	Japan	Anecdotal	-	Manufacturing	Various
2000	Dal <i>et al.</i>	UK	Case Study	UK	Manufacturing	Airbags
2000	Muthu <i>et al.</i>	India	Case Study	India	Production	Cement
2000	Tsang & Chan	Hong Kong	Case Study	China	Manufacturing	Semi/c Equip
2001	Cua <i>et al.</i>	USA	Survey	Various	Manufacturing	Part Suppliers
2001	Ireland & Dale	UK	Case Study	UK	Manufacturing	Various
2002	van der Wal & Lynn	South Africa	Case Study	Sth Africa	Manufacturing	Paper
2002	Ferrari <i>et al.</i>	Italy	Case Study	Italy	Manufacturing	Ceramics
2003	Sun <i>et al.</i>	Hong Kong	Case Study	Hong Kong	Manufacturing	Electronic
2004	Ahmed <i>et al.</i>	Malaysia	Survey	Malaysia	Manufacturing	Various
2004	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	-	Manufacturing	General
2004	Brah & Chong	Singapore	Survey	Singapore	Manuf/Service	Various
2005	Chan <i>et al.</i>	Hong Kong	Case Study	Hong Kong	Manufacturing	Semi/c Equip
2005	Patra <i>et al.</i>	India	Case Study	India	Service	Libraries
2005	Ahmed <i>et al.</i>	Malaysia	Case Study	Malaysia	Manufacturing	Semi/c Equip
2005	Seth & Tripathi	India	Survey	India	Manufacturing	Various
2006	Bonavia & Marin	Spain	Survey	Spain	Manufacturing	Ceramic Tiles
2006	Sharma <i>et al.</i>	India	Case Study	India	Manufacturing	Spare Parts
2006a	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	Nigeria	Energy	Power Plant
2006	Seth & Tripathi	India	Survey	India	Manufacturing	Various
2006	Pinjala <i>et al.</i>	Belgium	Survey	Belgium	Manufacturing	Various
2006	Rodrigues & Hatakeyama	Brazil	Anecdotal	-	General	General
2006c	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	-	General	General
2007	Ahuja & Khamba	India	Case Study	India	Manufacturing	Steel Plant
2007	Tsarouhas	Greece	Case Study	Greece	Production	Food
2007	Aiquang	China	Descriptive	China	Manufacturing	Part Suppliers
2008a	Ahuja & Khamba	India	Survey	India	Manufacturing	Various
2008b	Ahuja & Khamba	India	Survey	India	Manufacturing	Various
2008c	Ahuja & Khamba	India	Survey	India	Manufacturing	Various
2008d	Ahuja & Khamba	India	Survey	India	Manufacturing	Various
2008	Ramesh <i>et al.</i>	India	Case Study	India	Manufacturing	Tyres

Reliability-Centred Maintenance (RCM)

The changes to maintenance management defined by RCM have evolved over the past two decades. RCM was developed by, and for, the United States commercial airline industry in cooperation with the federal government, aircraft manufacturers, and air carriers. With the arrival of the Boeing 747, a wide-body aircraft, U.S. airlines realised that their maintenance activity would require considerable change due to a large increase in scheduled maintenance costs.

Moubray (1991, p.212) stated that RCM could be described as “a process used to determine what must be done to ensure that any physical asset continues to fulfil its intended functions in its present operating context”. Dhillon (2002) added that RCM leads to a maintenance program that focuses preventive maintenance on specific failure modes likely to occur. For this reason, the RCM process starts by defining the functions and performance standards of each asset in its operating context. It also places great emphasis on the need to quantify performance standards where possible. These standards cover output, product quality, customer service, environmental issues, operating costs and safety.

This therefore leads to the need to know what these assets are and to decide which of them are to be subjected to the RCM review process. In most cases, this means that a comprehensive plant register must be prepared requiring extremely detailed review of each asset and its individual components.

While the process is very time consuming, the RCM review yields four principal outcomes: (Moubray, 1991)

- greatly *enhanced understanding of how the asset works*, together with a clear understanding of what it can and cannot achieve.
- *a better understanding of how the asset can fail* together with *the root causes of each failure*. This means that maintenance energy is correctly focused on trying to solve the right problems. Not only does this help to prevent failures which occur of their own accord, but it also leads people to stop doing things which cause failures.
- lists of *proposed tasks* designed to ensure that the asset continues to operate at the desired level of performance. These take three forms:
 - maintenance schedules to be done by the maintenance department
 - revised operating procedures for the operators of the asset
 - a list of areas where changes (usually design changes) must be made to deal with situations where maintenance cannot help the asset to deliver the desired performance in its current configuration.
- greatly improved *teamworking*.

Moubray went on to list the benefits organisations can achieve by using RCM as being:

- Greater safety and environmental protection
- Improved operating performance (output, product quality and customer service)
- Greater maintenance cost-effectiveness
- Longer useful life of expensive items
- A comprehensive maintenance database
- Greater motivation of individuals
- Better teamwork

While he accepts that these issues are part of the mainstream of maintenance management, and many are already the target of improvement programmes, RCM provides an effective step-by-step framework for tackling all of them at once, and for involving everyone who has anything to do with the equipment in the process.

It must be noted that RCM did draw criticisms from a number of authors. Kelly (1997) argued that although RCM is a technically sound approach, it is questionable whether or not the resources required implementing it are justified. The benefits are certain, but often they do not outweigh the costs. Al-Najjar (1996) felt that RCM concentrates on improving existing plant rather than getting future plant right from the beginning, which can be achieved only by data feedback to designers. He also noted another shortcoming of RCM is that it does not make full provision for the use of condition-based techniques. Sherwin (2000), like Al-Najjar, stated that the worst aspect of RCM is its refusal to face up to the need for data. He also believes that RCM perpetuates the myth of over-maintenance. Therefore RCM tended to be used

Deshpande and Modak (2003) described RCM as a new strategic framework for ensuring that any asset continues to perform, as its users want it to perform. Having said that RCM tended to be used in maintenance sensitive industries with complex systems (Jia and Christer, 2002). RCM concept developed by US commercial airlines industry has been successfully implemented by military, navy, nuclear power plants, electric power generation and several other sectors (Backlund and Akersten, 2003).

To demonstrate how RCM is used in practical ‘real world’ applications, Table 2 lists the various empirical examples found in the literature between 1995 and 2008.

Table 2 RCM – Empirical examples in literature

Year	Author	Author Origin	Method	Study Country	Sector	Industry
1995	Jones	USA	Case Study	USA	Manuf/Energy	Various
1995	Sherwin & Jonsson	Sweden	Anecdotal	-	Manufacturing	General
1996	Al-Najjar	Sweden	Anecdotal	-	General	General
1996	Srikrishna <i>et al.</i>	India	Descriptive	India	Energy	Power Plant
1997	Jonsson	Sweden	Survey	Sweden	Manufacturing	Various
1997	Organ <i>et al.</i>	UK	Anecdotal	-	General	General
1999	Jardine <i>et al.</i>	Canada	Case Study	Canada	Food Process	Plant & Equip
1999	Pintelon <i>et al.</i>	Belgium/Thailand	Case Study	Belgium	Manufacturing	Automotive
2000	Sherwin	Sweden	Anecdotal	-	General	General
2000	Yam <i>et al.</i>	Hong Kong	Comparison	Hong Kong	Energy	Power Plant
2000	Liptrot & Palarchio	Canada	Case Study	Canada	Manufacturing	Steel Plant
2000	Ben-Daya	Saudi Arabia	Anecdotal	-	General	General
2002	Dhillon	USA	Anecdotal	-	General	General
2002	El-Haram & Horner	UK	Pilot Study	UK	Construction	Housing
2002	Deshpande & Modak	India	Case Study	India	Manufacturing	Steel Plant
2002	Waier	USA	Descriptive	USA	Health Care	Hospitals
2003	Backlund & Akersten	Sweden	Case Study	Sweden	Energy	Hydropower
2003	Deshpande & Modak	India	Anecdotal	-	General	Various
2003	Carretero <i>et al.</i>	Spain/France	Case Study	Spain	Transport	Railway
2003	Hansson <i>et al.</i>	Sweden	Case Study	Sweden	Manuf/Energy	Equip/Hydropower
2004	Smith & Hinchcliffe	USA	Case Study	USA	Various	Various
2004	Birkner	Germany	Case Study	Germany	Energy	Distribution
2006a	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	Nigeria	Energy	Power Plant
2006b	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	-	General	General
2007	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	Nigeria	Energy	Power Plant
2009	Doyle <i>et al.</i>	Canada	Case Study	Canada	Energy	Power Plant

Condition-Based Maintenance (CBM)

Condition-Based Maintenance (also known as on-condition maintenance, condition-directed maintenance, or predictive maintenance) relies on the detection and monitoring of selected equipment parameters, the interpretation of readings, the reporting of deterioration and the vital warnings of impending failure. Bloch and Geitner (1983) have noted that 99 per cent of all machine failures are preceded by certain signs, conditions, or indications that a failure was going to occur. Many times, such signals precede failure by weeks or even months. CBM implements closed loop maintenance control in which sensor feedback information from equipment is utilised in making maintenance-planning decisions.

CBM uses direct monitoring of the mechanical condition, system efficiency and other indicators to predict the actual time to failure or loss of efficiency for each item. CBM tasks are performed to serve the following purposes: (Mobley, 1990)

- To determine if a problem exists in an equipment, how serious the problem is, and how long the equipment can run before failure;
- To detect and identify specific components (e.g. gear sets, bearings) in the equipment that are degrading, i.e. the failure mode, and to determine the root cause of the problem – the diagnostic function.

Condition-monitoring techniques developed for CBM can be classified according to the type of symptoms they are designed to detect. The classifications are as follows:

- Dynamic effects, such as vibration and noise levels;
- Particles released into the environment;
- Chemicals released into the environment;
- Physical effects, such as cracks, fractures, wear and deformation;
- Temperature rise in the equipment;
- Electrical effects, such as resistance, conductivity, dielectric strength, etc.

The current constraints of the economic climate have underlined the natural aversion to over-maintenance, which can arise from calendar-based methods, and these have steadily been modified to include predictive maintenance techniques. The case for greater emphasis on maintenance management is reinforced by constant fresh evidence of organisational changes, ferocious commercial competition and increased demands for quality products and improved performance. The role of condition monitoring is to watch over and hence protect equipment.

Stoneham (1998) while discussing the various maintenance methods currently available had this to say about CBM. “Of the different maintenance philosophies discussed in this handbook, condition-based maintenance is almost certainly the most dynamic. It has erupted on to the maintenance scene, growing from an interesting scientific application around 15 years ago to a proven and established technology today” (p.81). Stoneham goes on to list a number of benefits associated with CBM, and in turn, provides the reasons why this particular method has proved to be so attractive:

1. *CBM methods and their results can be introduced quickly.*
2. *CBM can be used to complement existing methods.*
3. *CBM can be introduced gradually and checked for effectiveness before other methods are discontinued.*
4. *CBM is readily applicable to widely different industries.*
5. *CBM is particularly relevant when applied to production-critical equipment.*
6. *CBM finds the balance between over- and under-maintenance.*
7. *Condition monitoring addresses the surveillance problem arising from reduction in site manning.*
8. *CBM amplifies the fault detection power of experienced human beings and introduces powerful additional methods of detection and interpretation.*
9. *Condition monitoring is essentially required for normally unmanned facilities.*
10. *By using modern computer-based interpretation, operational situations may be interpreted automatically and experienced resources assigned where they are needed.*

Don Jarrell, Principal Investigator at the Pacific Northwest National Laboratory for the Decision Support for Operations and Maintenance (DSOM) system had the following to say about CBM, “First, there was preventive maintenance. Then, in what most observers considered to be a major step forward, predictive maintenance was introduced. With DSOM, both are obsolete, replaced by condition-based maintenance (CBM)” (Quinn, 2002, p.38).

Table 3 CBM – Empirical examples in literature

Year	Author	Author Origin	Method	Study Country	Sector	Industry
1995	Tsang	Hong Kong	Anecdotal	-	General	General
1995	Mann <i>et al.</i>	USA	Anecdotal	-	General	General
1996	Al-Najjar	Sweden	Anecdotal	-	General	General
1997	Jonsson	Sweden	Survey	Sweden	Manufacturing	Various
1998	Edwards <i>et al.</i>	UK	Anecdotal	-	Construction	Plant & Equip
1998	Jardine <i>et al.</i>	Canada	Anecdotal	-	General	General
1999	Jardine <i>et al.</i>	Canada	Case Study	Canada	Food Process	Plant & Equip
2000	Wang <i>et al.</i>	UK/Netherlands	Case Study	UK	Manufacturing	Soft Drinks
2002	Quinn	USA	Case Study	USA	Construction	Housing
2006	Ciarapica & Giacchetta	Italy	Case Study	Italy	Energy	Power Plant
2006b	Eti <i>et al.</i>	Nigeria/UK	Anecdotal	-	General	General
2008	Zuashkiani <i>et al.</i>	Canada	Case Study	Canada	Manufacturing	Steel Plant

In describing CBM, Jardine *et al.* (1997) stated current practices in maintenance range from breakdown maintenance through preventive maintenance, all the way to CBM. Lin *et al.* (2006, p.910) added support by stating “many companies have shifted their maintenance programs to a smarter way of doing maintenance – to CBM”. Yam *et al.* (2000) discussed how CBM has been widely accepted in practice and is in use in the manufacturing, construction, food processing and energy industries.

To demonstrate how CBM is used in practical ‘real world’ applications, Table 3 lists the various empirical examples found in the literature between 1995 and 2008.

FINDINGS

While many hundreds of maintenance related articles were reviewed only 79 provided empirical ‘real world’ examples of the three most popular maintenance systems found in the literature. Nine of these papers discussed more than one model therefore 90 studies are covered in the 79 articles reviewed, with the coverage percentage of each being:

- TPM – 66% [52]
 - RCM – 33% [26]
 - CBM – 15% [12]
- [] No. of studies

A breakdown of the methods undertaken in all the studies reviewed showed the following:

- Case study – 47% (37)
 - Anecdotal – 27% (21)
 - Survey – 16% (13)
 - Descriptive – 6% (5)
 - Comparison – 3% (2)
 - Pilot study – 1% (1)
- () No. of papers

If the articles which provide anecdotal accounts (21) were removed from the total of articles reviewed, this would leave only 58 empirical publications on maintenance management models for the past 14 years. This would seem a somewhat small figure given the level of importance maintenance management is to most organisations around the world. To further breakdown the research output in this area, data about author origin and study country is presented. Authors and countries of two or less articles are not listed.

<u>Author origin</u>		<u>Study country</u>	
UK	– 27% (21)	India	– 22% (13)
India	– 18% (14)	UK	– 19% (11)
USA	– 11% (9)	USA	– 9% (5)
Sweden	– 9% (7)	Sweden	– 7% (4)
Canada	– 6% (5)	Canada	– 7% (4)
Hong Kong	– 6% (5)	Italy	– 5% (3)
Japan/China	– 4% (3)		

In regards to research output, the UK and India dominate both author origin and country of study, with these two countries combining to provide 44% of the authors writing on the field and 41% of the locations where studies were undertaken.

While authors from Hong Kong produced five publications, Asian powerhouses such as Japan and mainland China produced only three combined. With TPM being developed in Japan and also being the dominate maintenance model in the literature (66%) it is interesting to note that only two studies were conducted in Japan, both on TPM. It is worth noting that five of the six publications produced in 2008 were from India, with four of these being contributed to the same authors.

Finally, analysis of sector and industry was conducted on the 79 articles. The three dominate sectors in which these studies were conducted included; Manufacturing (57%) (45 articles), followed by a General classification (18%) (14 articles) and Energy (13%) (10 articles). When narrowing the sectors into specific industries, power plants were clearly identified as being the popular for maintenance research with nine

papers identified (see Table 4). Power plants were followed by steel mills and the semiconductor industries with four each and the automotive industry twice.

Table 4 Energy sector – Empirical examples in literature

Year	Author	Models			Method	Study Country	Industry	Type
		TPM	CBM	RCM				
1995	Jones			✓	Case Study	USA	Power Plant	Nuclear
1996	Srikrishna <i>et al.</i>			✓	Descriptive	India	Power Plant	Coal
2000	Yam <i>et al.</i>			✓	Comparison	*Hong Kong	Power Plant	Coal/oil
2003	Backlund & Akersten			✓	Case Study	Sweden	Power plant	Hydro
2003	Hansson <i>et al.</i>			✓	Case Study	Sweden	Power Plant	Hydro
2004	Birkner			✓	Case Study	Germany	Distribution	-
2006a	Eti <i>et al.</i>	✓		✓	Anecdotal	Nigeria	Power Plant	Unknown
2006	Ciarapica & Giacchetta		✓		Case Study	Italy	Power Plant	Gas
2007	Eti <i>et al.</i>			✓	Anecdotal	Nigeria	Power Plant	Thermal
2009	Doyle <i>et al.</i>			✓	Case Study	Canada	Power Plant	Nuclear

* Study country not explicitly stated but from given information likely to be in Hong Kong

CONCLUSIONS

The primary focus of this paper was to identify practical ‘real world’ examples of the three most popular maintenance management models used in industry today, Total Productive Maintenance (TPM), Reliability-Centred Maintenance (RCM) and Condition-Based Maintenance (CBM). The review identified many hundreds of articles associated with each these three models but only a total of 79 papers demonstrated empirical evidence. While Ireland and Dale (2001) argued that there was ‘little in the way of empirical studies on TPM’, this study found even less empirical research had been conducted on the other two models with TPM showing 66% coverage, followed by RCM 33% and CBM 15%. When compared to the large amount of mathematical/theoretically derived articles in the literature on these three models there is clearly a disproportional disconnect between academia and the practical world on this important field.

Looking further, this review provides practitioners and academics with a detail description of the three most popular maintenance management models found in the literature, including a point-of-reference for each models. For practitioners seeking to expand their knowledge of a particular model, or how a maintenance management model may fit a particular organisation, each paper has be broken down into areas such as country, method, sector and industry so better practical links to present day organisations can be made. At a collective level, a review of literature offers researchers in the field an up-to-date base or index at which more concentrated levels of research can be developed.

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STRATEGIES FOR COMPETITIVE ADVANTAGE IN ELECTRONIC COMMERCE

Siamak Azadi

**Iranian Academic Center for Education ,Culture and Research
(ACECR), Iran**

ABSTRACT

Despite rapid and sustained development of electronic commerce, many companies doing e-business are still in the investment and brand-building phase and have yet to show a profit. However, as e-businesses shift their focus from building a customer base to increasing revenue growth and profitability, they should re-evaluate their current business strategies, if any, and develop strategies that provide a clear path to profitability. This study uses McCarthy's four marketing mix model and Porter's five competitive forces model to identify strategies for Internet companies that respond to the five competitive forces and thereby achieve a competitive advantage. The study provides significant new insights into the development and implementation of e-business strategies that contribute to increased profit.

Keywords: E-Business, Business Strategy, Marketing Mix, Competitive Forces, Profitability, Competitive Advantage

1. INTRODUCTION

E-commerce is fundamentally changing the economy and the way business is conducted. E-commerce forces companies to find new ways to expand the markets in which they compete, to attract and retain customers by tailoring products and services to their needs, and to restructure their business processes to deliver products and services more efficiently and effectively. However, despite rapid and sustained development of e-commerce, many companies doing e-business are still in the investment and brand-building phase and have yet to make a profit (Zwass 1998). Many e-businesses (or Internet companies) have focused on the visual attractiveness and ease of use of their Web sites as the primary method of increasing their customer base. However, as e-businesses shift their focus from building a customer base to increasing revenue growth and profitability, they should re-evaluate their current business strategies, if any, and develop strategies that provide a clear path to profitability.

This study uses McCarthy's (1960) four marketing mix model and Porter's (1980, 1985) five competitive forces model to identify strategies for Internet companies (or dot.coms) that respond to the five competitive forces and thereby achieve a competitive advantage. The overall goal is to provide significant new insights into the development and implementation of e-business strategies that contribute to increased profit.

This research is organized around two questions:

- 1) What impact does the Internet have on McCarthy's four marketing mix (product, price, promotion, and place) and Porter's competitive forces (the threat of new entrants, rivalry among existing firms, the threat of substitutes, the bargaining power of suppliers, and the bargaining power of buyers)?
- 2) What strategies can be derived from the four marketing mix that will affect the five competitive forces and thereby bring a competitive advantage to e-businesses?

2. Theoretical Background

2.1 McCarthy's Four Marketing Mix Model

According to McCarthy (1960) and Perreault and McCarthy (1999), a firm develops its marketing strategies by first identifying the target market for its products or services. It then develops a marketing mix—a particular combination of product, price, promotion, and place (i.e., distribution and delivery functions in the supply chain) designed to enhance sales to the target market. A unique mix of these elements in a given industry allows firms to compete more effectively, thus ensuring profitability and sustainability. For example, by coordinating various product offerings and associated price discriminations with sales promotions and effective logistics, a firm can increase its sales and profit. Since the Internet has a significant impact on the makeup of this marketing mix, Internet companies should develop strategies that take the unique nature of online marketing into account.

2.2 Porter's Five Competitive Forces Model

According to Porter (1980, 1985) and Porter and Millar (1985), a firm develops its business strategies in order to obtain competitive advantage (i.e., increase profits) over its competitors. It does this by responding to five primary forces: (1) the threat of new entrants, (2) rivalry among existing firms within an industry, (3) the threat of substitute products/services, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers.

A company assesses these five competitive forces in a given industry, then tries to develop the market at those

points where the forces are weak (Porter 1979). For example, if the company is a low-cost producer, it may choose powerful buyers and sell them only products not vulnerable from substitutes. The company positions itself so as to be least vulnerable to competitive forces while exploiting its unique advantage (cost leadership). A company can also achieve competitive advantage by altering the competitive forces. For example, firms establish barriers to deter new entrants from coming into an industry by cultivating unique or capital-intensive resources that new firms cannot easily duplicate. Firms also increase bargaining power over their customers and suppliers by increasing their customers' switching costs and decreasing their own costs for switching suppliers. The five competitive forces model provides a solid base for developing business strategies that generate strategic opportunities. Since the Internet dramatically affects these competitive forces, Internet companies should take these forces into account when formulating their strategies .

In his recent study, Porter (2001) reemphasized the importance of analyzing the five competitive forces in developing strategies for competitive advantage: "Although some have argued that today's rapid pace of technological change makes industry analysis less valuable, the opposite is true. Analyzing the forces illuminates an industry's fundamental attractiveness, exposes the underlying drivers of average industry profitability, and provides insight into how profitability will evolve in the future. The five competitive forces still determine profitability even if suppliers, channels, substitutes, or competitors change .

3. Impact of the Internet on Marketing Mix and Competitive Forces

The Internet can dramatically lower entry barriers for new competitors. Companies can enter into e-commerce easily because they do not need sales forces and huge capital investments as they do in offline markets. As the number of people with Internet access increases, the competition for online business in many industries will also increase. According to the Department of Commerce's 'Digital Economy 2000' report¹, in 2000 the number of people with Internet access reached an estimated 304 million worldwide, an increase of almost 78 percent over 1999 (Betts 2000). The Internet also brings many more companies into competition with one another by expanding geographic markets (Porter 2001). The Internet changes the basis of competition by radically altering product/service offerings and the cost structure of firms (e.g., cost reductions in production, distribution, and transaction). The Internet also changes the balance of power in relationships with buyers and suppliers by increasing or decreasing the switching costs of these buyers and suppliers. By reducing customers' search costs, the Internet makes price comparison easy for customers, and thus increases price competition (Bakos 1998).

The price competition resulting from lowered customer search costs increases rivalry among existing competitors, reduces switching costs of customers, and thereby shifts bargaining power to customers. On the other hand, IT reduces menu cost—the cost of administering multiple prices for a number of different products or services—and, in part, facilitates price discrimination (Bakos and Brynjolfsson, 1997). The Internet creates new substitution threats by enabling new approaches to meeting customer needs and performing business functions (Porter 2001). World Wide Web (WWW) technology itself has produced new promotion venues. The Internet also facilitates an electronic integration of the supply chain activities, achieving efficient distribution and delivery. It also facilitates partnerships or strategic alliances by networking partners or allies.

4. E-Business Strategies for Competitive Advantage

This section considers the impact of the Internet on marketing mix and competitive forces, and suggests strategies for achieving a competitive advantage.

4.1 Product Strategy

On the Internet, consumers can easily collect information about products or services without traveling to stores to inspect products and compare prices. In the offline market researching product offerings can be extremely expensive and time consuming. As a result, consumers rely on product suppliers and retailers to aid them in the search, and the suppliers and retailers take advantage of this situation by charging higher

prices (Allen and Fjermestad 2000; Viswanathan 2000). Consumers end up paying more and often not getting the product they really wanted. However, this is not the case for e-commerce. In the Internet market, a complete search of product offerings is possible at virtually no cost. Because consumers can easily compare prices and find close substitutes, companies are forced to lower prices. Companies cannot achieve competitive advantage simply by exploiting consumers' search costs, as they did in the physical market.

An alternative is for companies to make consumers' product comparison more difficult by differentiating their products from others. One possible competitive strategy is product bundling. Product bundling promotes the benefits of the whole package, thus keeping buyers from comparing individual items. For instance, Gateway started bundling its Internet services and computers in response to plunging computer prices (Sinha 2000). AOL, recently merged with Time Warner, is strengthening its bundling strategy by adding interactive and on-demand television, music on computer, and email on mobile phone to its existing services. By adding more services to a bundle, the company could command a higher price for its bundling service. Moreover, adding services to bundles is financially attractive because it is less expensive to sell an additional service to an existing customer than it is to attract a new customer (Schiesel 2001).² This product (or service) bundling strategy counteracts the threat of product substitutes and rivalry among existing firms.

Another strategy is innovation or the introduction of niche products, which also counteracts the threat of product substitutes, new entrants into the market, and competition among existing firms. By using the direct access to consumers enabled by the Internet, companies can collect information, identify target consumers, and better introduce products or services to meet consumers' needs. Companies can also collect information on new products desired by small segments of the market. By creating products that meet the needs of consumers in these niche markets, companies can command higher prices (Sinha 2000). Another strategy associated with niche products or innovation is customer-centric strategy. Compared to a product-centric strategy, which pushes products to consumers, customer-centric strategy pulls information from consumers to improve and customize products (Viehland 2000).

An expansion into related product lines can also be a good strategy. According to Porter (1987), the expansion into related product lines can exploit transfer of skills or sharing of activities such as promotion and distribution, which will lead to competitive advantage. Sharing can lower costs by achieving economies of scale and effectively utilizing company resources such as market information, managerial or technical expertise, and knowledge.³ Like traditional companies, Internet companies can also expand their product line into areas related to their existing product lines. For example, Amazon.com recently started selling personal computers in addition to its existing line of electronic products such as disk drives and memory (Hansell 2001). Amazon.com holds no computer inventory and has computers shipped directly from a computer distributor to its customers. This allows Amazon.com to save inventory-holding costs. However, such expansion cannot bring increased profits to Amazon.com without effective utilization of its existing customer base and information, and managerial or technical knowledge of e-business.

4.2 Price Strategy

The Internet enables consumers to compare prices, products, and services across suppliers. For example, by logging onto price-comparison sites like Pricescan.com and shopping agents like Bottomdollar.com, consumers can readily compare the prices and features of more than 10,000 products available on the Web (Sinha 2000). This leads to increased price competition and lowers the prices of products or services. According to Bakos (1998), lower search costs for price and product offerings in Internet marketplaces promote price competition among sellers. The Internet thus significantly affects competition, and intensive price competition can eliminate sellers' profits.

To overcome these threats, companies have to employ appropriate pricing strategies for selling products over the Internet. Sellers can employ a price discrimination strategy that makes it difficult for buyers to compare the prices of alternative product offerings (Bakos 1998). By collecting information about buyers, companies can perform more effective price discrimination. For instance, Staples.com charges different prices for different markets by asking customers to enter their zip codes before they can obtain prices. Sinha (2000) suggests two strategies for price discrimination: price lining and smart pricing. Price lining refers to the practice of offering the same products or services at various price points to meet different customers' needs. For example, American Online charges five different rates that vary according to subscriber usage. Smart pricing refers to the practice of charging various prices from market to market, depending on market conditions and differences in how customers value the product (e.g., the pricing strategy of Staples.com). Bundling can also be thought of as a type of price discrimination since it reduces the heterogeneity of choices facing consumers and thus their willingness to pay for individual items (Bakos and Brynjolfsson 1997). In bundling, a single price is applied to a bundle. If consumers' demands remain heterogeneous even after

bundling, then a mixed bundling strategy, which charges different prices for different bundles, can be applied.

Companies can also protect profits by achieving cost leadership in a particular market or industry. If sellers cannot price discriminate, the lowest price sellers can charge is the marginal cost of production. As competition intensifies, companies may have to lower their production costs to protect profits. Or companies may have to improve their product or service offerings with added values. Even in intensive price competition, better products or services will raise customers' switching costs and still command higher margins. For example, OfficeDepot.com provides added value to customers' order process (Gulati and Garino 2000). Each contract customer has a customized view of the OfficeDepot.com site. When logging on, the customer's employees are automatically assigned an authorization level that limits what they can buy and how much they can spend. With this value-added service, OfficeDepot.com can protect its profits. By eliminating paper purchase orders, the authorization system also benefits customers by reducing their purchase order costs and thus keeps them from switching to other suppliers.

4.3 Promotion Strategy

One of the reasons why many dot.com companies do not realize profits is that they spend a great deal of money for mass marketing to promote their e-brands to consumers. One television executive recently said, "The dot comes spent like drunken monkeys trying to build their brands. They were willing to pay any price. They were unsophisticated and in a hurry" (Elliott and Rutenberg 2000). The recent demise or downsizing of so many Internet start-ups has had a significant effect on television network revenues (Carter 2000).

Traditional mass marketing using television commercials, trade allowances, discounts, coupons, and sweepstakes is no longer successful in the Internet market, even in consumer-packaged-goods segments, where rival products now differ very little, since consumers can easily acquire information on the price and characteristics of products (Sealey 1999; Hoffman and Novak 2000). Sales promotions with coupons and discounts seldom build customer loyalty to brands because customers conclude that the lower prices are a fair reflection of the company's costs. When the promotions are over, customers evidently believe the regular prices are excessive and turn to rival products (Sinha 2000). Thus mass marketing and sales promotions result in expensive, inefficient brand management.

To manage e-brands effectively and efficiently, companies have to employ promotion strategies different from those used by traditional marketing. One tactic is to build a direct link with consumers and enter into a dialogue with them about products (dialogue-based marketing or one-to-one marketing). This allows companies to provide customers with information about their products, collect information about their customers, and engage in data mining. They can then customize products to meet customer needs and offer promotions tailored to specific customer groups. This process helps build a base of loyal and profitable customers (Sealey 2000). Allan and Fjermestad (2000) also argue that the benefits of personalized promotions will be greatest when customers are interested in detailed product information or the product is marketed as state-of-the-art. The Internet encourages companies to employ this marketing based on direct, personalized relationships with customers (so-called 'relationship marketing').

According to Sealey (2000), the Internet also provides customers with an unprecedented degree of control over the entire marketing process. As consumers become proficient at using the Internet, they will only buy products that precisely match their needs. Thus, companies must formulate customer-centric promotion strategies that respond to this new customer power. Allen and Fjermestad (2000) suggest that brand management will be successful only when it is associated with beliefs and experiences such as feelings, associations, and memories. Thus, Internet promotion must also focus on presenting information about the experiences and beliefs of consumers associated with each brand.

Another promotion strategy for gaining competitive advantage is revenue-sharing marketing strategy (Hoffman and Novak 2000). A revenue-sharing marketing strategy is an affiliated marketing program with partners based on commissions. For example, Amazon.com launched its affiliate program in 1996 and now has some 400,000 affiliates. CDnow.com (the pioneer of revenue-sharing strategy), REI.com, and Dell Computers also have strong affiliate programs. As the Internet continues to mature, companies can seek out specific segments of potential customers and the corresponding Web sites, and then establish revenue-sharing marketing programs with Web sites that can deliver those potential customers.⁵ Compared to traditional mass marketing, revenue-sharing programs allow companies to keep track of purchases made by customers and draw a direct line from marketing (expenses) to sales (performance). However, traditional marketing mechanisms such as television commercials are still important in that they can attract off-line customers.

Thus, Internet companies need to find a good balance between Internet promotion (one-to-one or many-to-many marketing) and traditional mass promotion (one-to-many marketing).

4.4. Place Strategy

For most companies, place refers to the supply chain (or value chain). The place aspects of the marketing mix are closely related to the distribution and delivery of products or services. The Internet and its associated application software have significantly changed the way companies' products or services are delivered by reducing transaction and distribution costs.

One way for companies to differentiate their products from rival companies is faster and more efficient delivery of products to their customers. The Internet allows companies to jump over parts of the traditional supply channel. Direct sellers like Dell Computer do not rely on wholesalers and retailers to deliver their products to consumers.

Instead they contract with third-party providers such as FedEx and UPS, which provide fast, efficient delivery because they have superior logistical expertise and economies of scale in distribution (Bakos 1998). Delivery providers such as UPS also have programs to set up e-commerce sites for businesses that ship with them (Gosh 1998).

Another strategy related to faster and more efficient delivery is integration of online and bricks-and-mortar businesses (clicks-and-mortar strategy). E-businesses (particularly e-tailers) need fully automated distribution warehouses to meet demand from shoppers on the Internet. For example, Amazon.com leased a new 322,560 sq. ft. distribution center in Fernely, Nevada in late 1998 (*New York Times*, January 8, 1999). By investing in physical assets such as a warehouse, Amazon.com can compete more effectively with Barnes & Noble. The Gap also recently leased a new 424,000 sq. ft. warehouse near its existing 270,000 sq. ft. warehouse in Ohio to accommodate the growth of Web sales (Deutsch 2000). In a related development, Amazon.com recently started to sell toys on its so-called co-branded Web site, forming a partnership with Toysrus.com in which Amazon.com handles merchandising and order fulfillment and Toysrus.com handles purchasing (Tedeschi 2000). Amazon.com also made an arrangement for Ingram Books, a large distributor, to ship certain books directly to its customers. This arrangement could cut in half the cost of fulfilling book orders (Hansell 2001). Table 1 summarizes e-business strategies in terms of product, price, promotion, and place that can achieve competitive advantage by responding to the five competitive forces.

5. Choice of E-Business Strategies

A look at e-business strategies composed of the five competitive forces and the four marketing mix (Table 1) shows that there is no single optimal business strategy for e-commerce because the sources of competitive advantage differ across different industries or markets. By the same token, in industries or markets where different levels of competitive forces are present, certain combinations of product, price, promotion, and place strategies may not work for gaining competitive advantage.

In industries or markets where the threat of new entrants, rivalry among existing firms, and threats of substitutes are significant (commodity markets in most cases), only certain combinations of appropriate product, price, promotion, and place strategies can succeed in achieving a competitive advantage. For example, Internet companies in commodity markets cannot rely on price discrimination strategies because products are basically identical, and customers are able to seek the lowest price for each product by comparing many competitors. In this situation, companies must reduce costs in order to maintain market share and profits, which they can do by forming partnerships with suppliers and distributors, expanding into related product lines, deploying customer-centric promotion strategies, or building strong e-brands based on experiences and beliefs. On the other hand, in industries or markets that are concentrated and have differentiated products, threats of new entrants and/or product substitutions are relatively weak. In these differentiated markets, Internet companies can capture most of the value generated in the market by building strong product brands, adding unique features to their products or services, setting up revenue-sharing systems, and strengthening their strategies alliances. The same e-business strategies may not work for all Internet companies. For example, expansion of its product offerings by selling personal computers may be effective for Amazon.com, whose business focus has moved from selling books to providing convenient online shopping for a great variety of products (as shown in its e-commerce trademark, Earth's Biggest Selection™). The same strategy may not work, however, for online book sellers such as barnesandnoble.com because such an expansion strategy could undermine its brick and mortar counterpart, Barnes & Noble, whose business focus is on selling books and information-based products. To capitalize on the recognized brand value of Barnes & Noble, barnesandnoble.com should retain its focus on information-based products and services, not general consumer items like personal computers. According to Porter (2001): "Having a

strategy is a matter of discipline. It requires a strong focus on profitability rather than just growth, an ability to define a unique value proposition, and a willingness to make tough tradeoffs in choosing what not to do”.

6. Concluding Remarks

It is extremely difficult to value Internet companies because most of them have few assets and make little profit (De Figueiredo 2000). There are a number of reasons why many Internet companies have been unsuccessful at making a profit: heavy spending on mass marketing, intensive price competition, lowered customers' search and switching costs, increased customer power, and lowered entry barriers. However, the main reason is that most Internet companies do not have business strategies that provide a clear path to increased profit.

In this study, we used McCarthy's four marketing mix model and Porter's five competitive forces model to identify strategies likely to bring a competitive advantage to Internet companies. By understanding the impact of the Internet on marketing mix and competitive forces, e-business managers can adopt appropriate strategies for meeting the unique challenges of e-business. This study provides e-business managers with a framework to help them systematically analyze and develop successful strategies to address the problems of doing business online.

Although this study addresses the need for unique strategies for different Internet companies, further research is required to address the problems faced by traditional firms when they compete against e-business companies. The possible questions to be raised are: When traditional companies enter into e-commerce, what strategies should they implement? How much integration should take place when traditional and online businesses merge? For traditional firms, one of the most serious challenges to going online is deciding how much to integrate their traditional operations with online business (Gulati and Garino 2000). The problem is that integration provides the benefits of cross-promotion, shared information, purchasing leverage, and distribution economies, but this often comes at the expense of speedy decision-making, flexibility, and creativity. Other challenges to integration include price competition and avoiding the problem of online and offline businesses cannibalizing each others' customers. Faced with these challenges, traditional companies need to develop unique business strategies in order to compete against Internet companies. In any case, corporate managers who best understand the impact of the Internet and e-commerce on marketing mix and competitive forces will be best prepared to meet the challenges of the e-business marketplace.

Table 1: E-Business Strategies for Competitive Advantage: Product, Price, Promotion, and Place Strategies Responding to Five Competitive Forces

	Product	Price	Promotion	Place
Threat of New Entrants	Product Differentiation (e.g., Bundling) Niche Products or Innovation Customer-Centric Strategy Expansion into a Related Product Line	Price Discrimination (e.g., Price Lining and Smart Pricing) Cost Leadership Value-added Products or Services	Customer-Centric Promotion Strategy (One-to-One Marketing or Relationship Marketing) Brand Appeal Based on Experiences and Beliefs Revenue-Sharing Marketing (Manyto-Many Marketing or Performance-Based Marketing)	Outsourcing or Strategic Alliances Clicks-and-Mortar Strategy (Integration of Online and Offline Businesses)
Rivalries among	Product	Price Discrimination	Customer-Centric	Outsourcing or Strategic Alliances

Existing Firms	Differentiation (e.g., Bundling) Niche Products or Innovation Customer-Centric Strategy Expansion into a Related Product Line	(e.g., Price Lining and Smart Pricing) Cost Leadership Value-added Products or Services	Promotion Strategy Brand Appeal Based on Experiences and Beliefs Revenue-Sharing Marketing	Clicks-and-Mortar Strategy
Threat of Substitutes	Product Differentiation (e.g., Bundling) Niche Products or Innovation Customer-Centric Strategy	Price Discrimination (e.g., Price Lining and Smart Pricing) Cost Leadership Value-added Products or Services		Clicks-and-Mortar Strategy
Bargaining Power of Suppliers		Value-added Products or Services	Revenue-Sharing Marketing	Outsourcing or Strategic Alliances
Bargaining Power of Buyers		Value-added Products or Services	Customer-Centric Promotion Strategy Brand Appeal Based on Experiences and Beliefs Revenue-Sharing Marketing	Outsourcing or Strategic Alliances

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A FRAMEWORK FOR MEASURING STRATEGIC COMPETITION

Themis Suwardy
Singapore Management University

Janek Ratnatunga
Erwin Waldmann
Kym Fraser
University of South Australia

ABSTRACT

The intensity of competition in an industry is of relevance to all its stakeholders. Managers and owners of individual firms, industry associations, analysts, consumers and suppliers, and various bodies of governments are constantly concerned about competition. A widely accepted industry competition model is the “five forces model” postulated by Michael Porter, which offers qualitative assessments of the factors that shape competition. The Porterian model is attractive because of its simplicity, adaptability and flexibility, and yet managers find it hard to operationalise because it lacks quantification as to how competitive factors are to be measured. This paper presents a multivariate approach, referred to as the ICM framework, which is unique in that it is the first quantitative operationalisation of the Porter five forces model, both at a firm and industry level. The framework quantifies the degree of industry competition with reference to a hypothetical “average” state of competition. The degree of competition is thus seen from a comparative perspective rather than fixed in reference to either a perfectly competitive or monopolistic (i.e. non-competitive”) state. The study then demonstrates the applicability of the ICM Framework by examining the competitive positions of 19 selected Australian industries. The results obtained indicate that the degree of competition varies widely amongst Australian industries and is characterised by high intensity of rivalry, low bargaining power of buyers, minimal bargaining power of suppliers, high threat of new entrants and wide-ranging threat of substitutes.

Keywords: Competition, Five Forces Model, Porterian Framework, Australian Study.

1. INTRODUCTION

Can industry competitiveness be measured quantitatively? The primary objective of this study is to answer this question by developing a competition measurement framework, which will then allow a quantitative empirical analysis of the structural determinants of competition. What benefits would such a measurement approach bring? The tools currently available to analyse industry competitiveness are qualitative in approach, done by industry experts, analysts, or by a researcher based on face-to-face unstructured interviews of managers in a particular industry (Ratnatunga, 1995; Bresnahan & Greenstein, 1999). This study proposes a quantitative approach that allows managers; industry analysts, researchers and policy makers to further understand the numerous signals of competition in a firm or an industry, or across industries. On a *firm level*, through the understanding of the factors that affect competitiveness, managers can improve the understanding of their respective industry and identify critical benchmarks of their firm’s current position. They could also cross-check the results with their own qualitative research within the industry. At an *industry level*, the application of the framework could show analysts and researchers, the comparative level of competition in their industries, again confirming (or questioning) their qualitative perceptions.

The proposed framework, termed the *Industry Competition Measurement (ICM) Framework*, is an analytical approach that facilitates the quantifiable measure of competition that can be used by managers in determining strategies of competitive advantage in their industries. It can also be used by industry analysts in advising their clients with regards to comparative investment and other opportunities across industries, and by

academics in conducting future studies that seek to examine relationships between competition and other constructs of interest.

Are there any constraints to the use of the Framework? Yes, and it should be emphasised that such an analytical approach only provides a starting point for more detailed industry analysis and strategic response. One constraint is that the interpretation of the scales used may be influenced by the position of a firm within that industry, for instance niche versus mainstream, market share leader versus smaller firms, and the resources available at both an industry level and firm level. Hence, there may be variations in interpretations which need to be correlated with the focal variable(s) used in the study. Another constraint in considering industry niches is that of equivalency or 'response bias', i.e. a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content (Spender, 1989; Welkenhuysen-Gybels *et al.*, 2003). It will be demonstrated that whilst consideration of such issues are important (Porac *et al.*, 1989; Dornier & Karoui, 2003), these constraints do not diminish the value of the insights generated by the ICM framework (see Appendix 1).

2. JUSTIFICATION FOR EXTENDING PORTER'S 5 FORCES MODEL

Competition is the "heart of our economic system" (Schoeffler *et al.*, 1974). Many authors have written on the dynamic, comparative, multi-dimensional and complex nature of competition (Clark, 1961; EPAC, 1991; Day & Reibstein, 1997; Hooley *et al.*, 1998). Some schools of thought consider competition to be comparative to other firms, whilst others consider competition to be more contextual, encompassing wider environmental issues (Hunt & Morgan, 1995; Moore, 1996; Sheth & Sisodia, 2002). Both these views will be specifically considered in developing the model presented in this paper. The literature indicates an absence of a singular absolute measure of competition, and instead that competition can only be gauged from various "signals of competition" (Boyle, 1972; Industry Commission, 1992; EPAC, 1993). Each signal can be thought of as one dimension of competition: none, by itself, is sufficient to infer the overall state of competition in an industry.

A widely accepted model of competition is that postulated by Michael Porter, who is regarded as one of the most significant contributors to the field of competition and business policy in recent times (Porter, 1980, 1985). Porter's structural determinants of industry competitiveness (the "five forces model") suggests that the level of industry competition is a function of five signals: the intensity of rivalry between existing firms; the bargaining power of buyers; the bargaining power of suppliers; the threat of new entrants and the threat of substitutes. Porter's work in this area has been largely based on case studies of single industries (although the collection of these case studies may give the appearance of inter-industry studies). However, the model, in its current form, is essentially a univariate model in which analysts *qualitatively* assess the level of competition one force at a time, and then subjectively combine the individual force assessments into a single measure of industry competition. The Porter model does not appear to have been applied quantitatively across a number of industries at the same time, i.e. in a multivariate manner at both the firm and industry level simultaneously.

Whilst Porter model has been used extensively in single industry studies (Boyle *et al.*, 1993; Munk & Shane, 1994; Ratnatunga, 1995), it has had his share of criticisms. For instance, researchers in strategic management, adopting a 'resource based view' of the firm, have questioned the role of industry conditions alone in determining firm performance (Wernerfelt, 1984; Hooley *et al.*, 1998). Increasingly researchers are of the view that both the industry and firm specific resources require combining if a holistic view of competitive advantage generation and performance outcomes is to be developed. Thus, while the Porter framework has been adopted as an important contribution to understanding the industry dynamics facing the firm, it is recognised as only one part of the strategic jigsaw puzzle (Speed, 1989; Sutton, 1991).

According to the Porterian model, an industry is said to be most competitive when all of the five forces are perceived to be "high". Each competitive force is, in turn, determined by the strength of its respective *competitive factors* (see Appendix 2).

Thus, when using the Porterian model in its conventional form, the determinants of competition have to be (qualitatively) measure at this competitive factor level, rather than simply measuring the higher level "five forces" (Goldsmith, 1991). The characteristics and effects of the five competitive forces (and their respective competitive factors) that shape industry competition can be complex and it can be difficult to see the effect of

one competitive factor on the overall degree of competition. This is particularly the case when a group consensus is being sought, and is one of the major difficulties faced by managers and business analysts even when using the model in a qualitative manner.

Despite these perceived difficulties in using the model in its conventional (qualitative) form, the researchers did not find a significant “gap” in the literature suggesting difficulties with the practical application of the Porterian model. This raises the “Why fix it, if it isn’t broken?” question.

In order, therefore, to justify improving upon the model, the researchers tested out the use of the model in its current form by groups of managers in a controlled environment. In the resulting discussion regarding the conventional use of the model, two common comments were that groups found that they were trying to implement the concepts of by ‘guesswork’, and that key concepts were sometimes overlooked in group discussions and key assumptions may have been false. Another interesting comment from one group was that the model, though being a powerful structure for discussion, has its limitations mainly because of its simplification of complex relationships. The managers perceived the model to be linear in structure, whereas in reality competition arises more in the form of networks and clusters. The results of the simulated test provided some justification for the need for a more quantitative approach to the analysis of industry competition.

3. THE PERCEPTUAL MAPPING OF COMPETITIVE FACTORS

The challenge in developing an industry competition measurement framework lies in the formulation of the five forces into a model that could combine perceptual information from respondents across different industries. This study suggests that if one collates the perceptions of competition that managers have in individual firms within an industry, one would then be able to extrapolate the *overall* perception of the state of competition of that industry, and that this measurement of perception could be used as a surrogate measure for the intensity of competition in that industry.

The proposed approach in this paper, the *ICM Framework*, is based on a multivariate analysis of the competitive factors detailed in *Appendix 2*. If every condition holds for a particular industry, it would be “hypothetically” the most competitive industry one can find under the Porterian model.

The conditions required for a hypothetically “most competitive industry” as per the five forces model are described in *Appendix 2* (i.e. all competitive factors being “high”) and it is relatively easy to imagine a hypothetically “least competitive industry” with the reverse of such conditions (i.e. all factors being “low”). Similarly, if respondents were to rate all the competitive factors as “neutral” on the Likert scale (*Appendix 3*), one can imagine a hypothetical “average” or “par” state of competition. Thus, the state of competition derived in this paper is not based on theory, but instead it is an empirically derived statistical average, in which the mid point of the 5-point Likert scale is considered as “average”. The level of competition can be measured as a *departure* from this average or par value, thus examining competition from a comparative rather than static perspective (Hunt & Morgan, 1995). Industries that are more competitive than this average state of competition would have a *positive (or increasing)* level of competition (i.e. their level of competition is “above par”), while those where competition is low would be “below par” and have a *negative (or decreasing)* level of competition. Thus, a zero competition level does not mean an absence of competition, but merely a state where competition is perceived to be at par.

There is, of course, the possibility of a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content, which is known as equivalency or response bias. If this bias is significant, then the very basis of the paper in quantifying perceptions can be questioned. However, as discussed in *Appendix 1*, there is no strong evidence in this study to indicate that such bias or skew would only be in one direction, especially given its single cultural setting. Further, there is evidence that managers in an industry do sometimes see competition as similar and at other times as different (Spender, 1993; Krueger & Funder, 2004). The researchers, therefore, made the simplifying assumption that the respondents would have both positive and negative skewing in their personal scales, and that these would, on average, cancel each other out, resulting in the reported average being a reasonable surrogate for the ‘true’ average. Thus it could be assumed that the researchers’ use of the scale would be considered identical for all respondents, and therefore that any deviation in the interpretation of the midpoint was not significant to the discussion of firm or industry specific issues

Another related issue, as discussed earlier, is that cognition experts have cautioned that the firms that have different perceptions of how the competitive forces operate should be treated separately, as they may represent a different conception of the industry from the consensus. Similarly, various authors (including Porter) have cautioned that as the importance of an individual competitive force differs from industry to industry, the measurement framework must also take into account the degree of importance of the competitive force in the industry. In the model presented in this paper, therefore, a perceived “Competitive Force Rating (CFR)” will be developed to assess the perceived degree of importance of each competitive force to respondents in each industry (Khandwalla, 1972; Bjornsson & Lundegaard, 1992; Abraham *et al.*, 1993; Fry, 1996).

4. SCORING METHOD AND INTERPRETATION

The *ICM Framework* (Figure 1) is the quantitative operationalisation of Porter’s five forces model, at both a firm and industry level, and seeks to quantify the degree of perceived industry competition in reference to a hypothetical firm or industry with an “average” state of competition. Note that CFI_2 to CFI_5 are also derived in the same manner as elaborated for CFI_1 , but this is not shown to avoid making the model appear too complex.

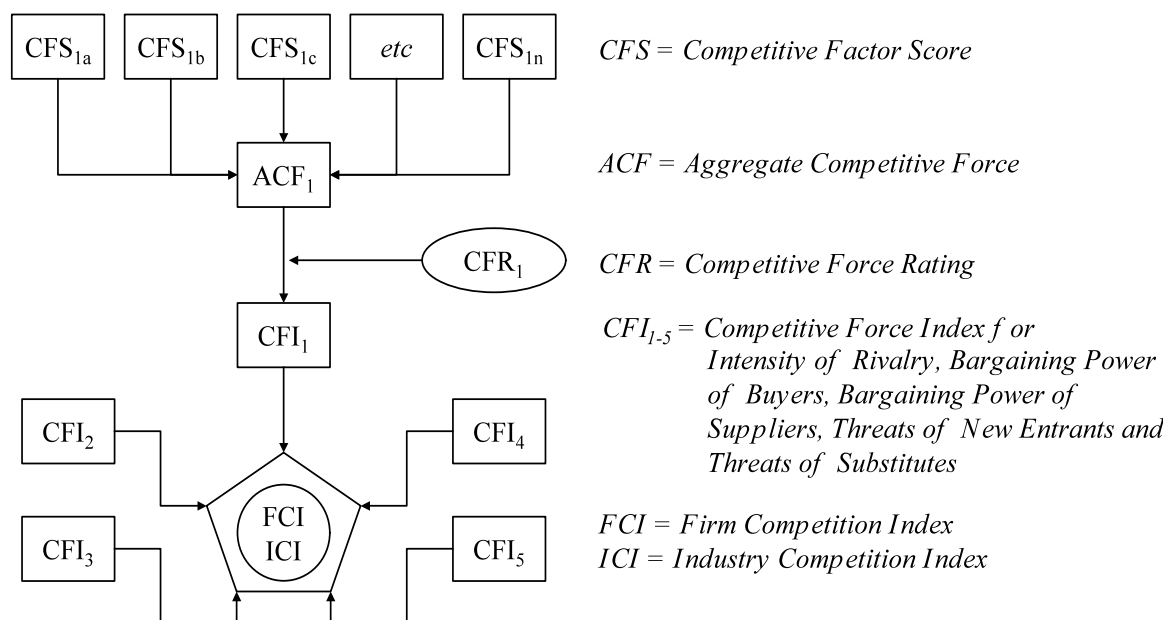


Figure 1 – Industry Competition Measurement (ICM) Framework

All of the competitive factors (32 items) in the five forces were expressed into reasonably short, meaningful and bipolar (low and high) statements on which respondents can indicate their agreement or disagreement (see *Appendix 3*). The 5-point Likert scale is translated into a dispersion scale from a midpoint of zero. To illustrate this scoring methodology, Figure 2 shows two sample competitive factor scores. If the mean Likert-score on the “industry growth” competitive factor is, say, 4.5, the dispersion score of 1.5 (i.e. 4.5 - 3) will be used as the *Competitive Factor Score (CFS)*. Similarly, if the mean Likert score for the “Learning Curve” factor is 2.6, the CFS will be -0.4 (i.e. 2.6 - 3). These dispersions are then further analysed by studying if there were significant differences in competitive factor scores across industries.

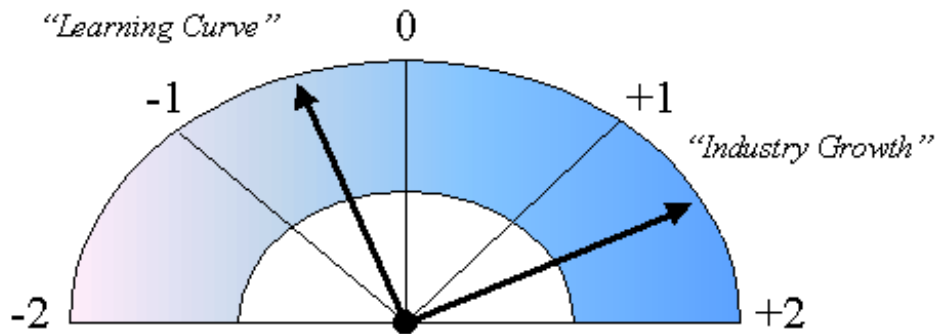


Figure 2 – Competitive Factor Scoring Methodology

The *Aggregate Competitive Force (ACF)* is the composite CFS in a competitive force, taking into account the number of competitive factors within the force. This averaging process ensures that a competitive force will not ultimately become more significant merely because it had more competitive factor measures (see *Appendix 3*).

It must be noted that whilst the scoring system using a scale from *minus 2* to *plus 2* was useful at the CF level, the authors translated the scale into percentages for ease of readability. Thus in the aggregation of CF measures, the scale was converted so that minus 100% represented the minimum level of minus 2, and plus 100% the maximum level (plus 2). This conversion was done by expressing these aggregates as a percentage of the maximum scale values for a respective competitive force (+2 in the positive direction and -2 in the negative direction). This can be shown in the following equation:

$$\left(\sum_1^n CFS \right) / (n \times 2)$$

Where CFS = Competitive Factor Score and n = the number of competitive factors in the respective competitive force, with the number 2 representing the maximum value on the scale used.

Once the industry's *Aggregate Competitive Force* scores (ACFs) have been obtained, as the *level of importance* of each competitive force may be different for different industry respondents, it must be adjusted using a *Competitive Force Rating (CFR)* in order to derive the *Competitive Force Index (CFI)*. The CFR is a weighted average percentage calculation using scale of 1-5 (1 being least important and 5 being very important, the 1+2+3+4+5 responses totalling 15, which is used as the base). For example if the respondents indicated the degree of importance of a particular competitive force is 4.00, then CFR weight works out to (4/15), or 26.7%. Another industry may perceive the same competitive force as less important, say 2, which translates to a CFR of (2/15) or 13.3%. The CFI for each force is then calculated using the following equation, which demonstrates how the ratings were factored into the individual *Competitive Force Index (CFI)* as shown in Table 1, again showing the values as percentage of the minimum and maximum scale values obtainable.

$$CFI = [(ACF \times \%CFR) \times 5]$$

The aggregate of all five *CFIs* shows the level of competition faced by a firm, termed the *Firm Competition Index (FCI)*, i.e.

$$[\sum (CFI_1, CFI_2, CFI_3, CFI_4, CFI_5)] / 5$$

On an industry level, the level of competition in an industry (*Industry Competition Index, ICI*) is a function of the collective firm competition indices for all members of the industry. Concern may be expressed about the development of such an operational framework, i.e. one that is *simultaneously* applicable at both the firm (micro) and industry (macro) levels. There are many acknowledged situations in the economic, organisational behaviour, accounting and marketing literature in which micro phenomena cannot be so aggregated at the macro level. In this case, however, the authors used aggregations as accepted in respondent-based statistical surveys in which individual responses are aggregated as group responses, ignoring the real possibility that individual objectives may differ from group objectives (Porter, 1990).

In summary, CF refers to a factor within an individual competitive force, e.g. the ‘growth rate’ factor within the ‘Intensity of Rivalry’ competitive force (with a measurement range between -2 and +2) for an individual firm. ACF refers to the aggregate of CF scores in a competitive force for an individual firm (given as a percentage of the maximum score of 2 for ease of readability and interpretation). As each individual competitive force may have varying degrees of importance for different industries a CFR (a weighted percentage) is used to determine an adjusted individual competitive force, called CFI (with a measurement range between -100% and +100%) for an individual firm. Having adjusted for the relative importance of each CFI using the CFR weighting, the *FCI* for an individual firm can be calculated by adding the 5 individual CFI scores, and then dividing by 5. This represents the average score of the five competitive forces within an individual firm, again with a value range of between -100% and +100%.

These individual firm CFIs can *also* be summed across an industry, to obtain an industry CFI (again with a measurement range between -100% and +100%). The 5 CFI measurements for each industry grouping are given in Table 1. The *ICI* - the arithmetical averaging of the 5 CFI competitive forces, again with it’s a value range between -100% and +100% - is also shown in Table 1.

By surveying its senior executives, a firm’s management could use such a hierarchical multivariate approach to obtain a quantitative composite perception (i.e. FCI) of the impact of the five industry forces of competition on the firm. This would be faster (an arguably more objective) than similar more subjective reports undertaken either by an “industry expert” commissioned by the firm, or by an in-house researcher based on face-to-face unstructured interviews of its key managers.

In order to test this claim, the researchers tested the approach on 37 managers undertaking MBA studies at an Australian university. The preliminary results indicated that managers not only considered the results more objectively derived, but were also able to use such reports as a cross-check of the more qualitative studies, and investigate variances in perceptions, if any. Similarly, industry analysts can interview managers in firms across an industry to obtain quantitative measures of the 5 industry CFIs, and their impact on industry competitiveness (i.e. ICI). Finally, at the highest hierarchical level of the model, researchers and policy makers can go across industries, to obtain the ICIs for all industries, in order to investigate cross-industry comparatives. Such analyses would be useful in areas such as anti-competitive and trade practices legislation.

5. TESTING THE ICM FRAMEWORK – AN APPLICATION IN AUSTRALIA

Data Collection and Analysis

The industry classification scheme employed was based on the Australian Stock Exchange (ASX) Industry Classification, which contains 24 main industry and 124 industry subgroups. The selection procedure included deleting industries with less than 10 members, diversified industries and using industry subgroups in place of “Miscellaneous” industry groups. A total of 19 industries were selected for inclusion in the study (see Table 1), and all firms in these industries were surveyed (N and n = 463). The “subjects” chosen were the highest managing personnel in the organisations as listed by the ASX, mostly Managing Directors (56%), CEOs (16%) and Chairmen (16%).

Data were collected via mailed questionnaires with a time frame for completion of two weeks, followed up by two reminders. Of the 463 questionnaires sent out, 374 (80.7%) were returned, of which 195 (52.14%) were useable. There were no significant difference between the early respondents and later respondents.

CFIs for each of the five forces in the 19 industries were calculated using the *Industry Competition Measurement* framework (Table 1). Significant differences in CFS and CFR measurements across industries were tested using one-way ANOVA with Bonferroni post hoc tests, which adjusts the significance level by the number of tests performed, with a significance level of 0.05.

Insights from the Findings

The paper set out to make a significant contribution to research by both introducing a new tool to enable business policy makers to undertake a quantitative approach to measuring the intensity of industry

competition, and then demonstrating its applicability using Australian data. The discussion that follows, therefore, needs to not only show that the quantitative approach is a viable alternative to the more qualitative approaches, but also that it provides deeper insights than possible via conventional analyses.

Table 1 summarises the *Industry Competition Index* in ascending order of competition. CFI₁ to CFI₅ refer to Intensity of Rivalry, Bargaining Power of Buyers, Bargaining Power of Suppliers, Threat of New Entrants and Threat of Substitutes, respectively. Table 1 shows first that there is a wide spread between the least competitive industry (*Medical Services*, ICI of -20.45%) and the most competitive industry (*Media*, ICI of 105.22%). Such a holistic view of industry competitiveness is not possible in conventional univariate analyses.

It can be seen that there is a noticeable consistency in impact of the five forces. The CFIs of both *Intensity of Rivalry* and *Threat of New Entrants* all have positive effect on the competitive states of the industries, whereas the CFIs for *Bargaining Power of Buyers* of all but one industry (*Paper and Packaging*) have a negative impact on competition. Whilst one can argue that these overall rankings do not have a ‘surprise value’ in terms of the conventional perceptions of industry competitiveness in such industries, this can be seen as a positive sign, in that they enable managers to have more confidence as to the robustness of the model. This was seen as important if managers are to accept some of the more surprising findings when analysing each of the five forces separately.

Table 1 – State of Industry Competition

Industry (responses/n)	CFI1 (Rivalry)	CFI2 (Buyers)	CFI3 (Suppliers)	CFI4 (Entrants)	CFI5 (Substitutes)	ICI (Average)
Medical Services (6/11)	21.39%	-35.19%	7.14%	17.31%	-31.11%	-4.09%
Pastoral and Agricultural (6/10)	7.13%	-25.46%	8.33%	13.89%	-19.44%	-3.11%
Industrial Services (17/33)	9.95%	-41.98%	-1.58%	29.34%	-8.72%	-2.60%
Automotive (6/8)	41.48%	-24.07%	-22.86%	29.81%	-35.00%	-2.13%
High Technology (12/30)	11.71%	-25.91%	1.75%	21.24%	-14.09%	-1.06%
Chemicals (3/6)	14.26%	-22.22%	0.00%	33.33%	-22.22%	0.63%
Developers & Contractors (17/36)	16.73%	-29.80%	-7.21%	20.13%	22.61%	4.49%
Transport (8/13)	43.83%	-22.92%	1.43%	29.17%	-19.50%	6.40%
Retail (14/25)	41.74%	-22.89%	-9.54%	20.88%	7.25%	7.49%
Engineering (18/32)	34.12%	-23.66%	6.40%	25.02%	-2.92%	7.79%
Computer & Office Serv. (12/22)	14.64%	-27.08%	8.98%	30.14%	23.33%	10.00%
Paper and Packaging (4/9)	35.00%	3.33%	-23.57%	16.67%	18.75%	10.04%
Building Materials (10/25)	31.33%	-10.63%	0.60%	21.00%	11.11%	10.68%
Alcohol and Tobacco (8/14)	52.86%	-23.33%	-6.03%	34.27%	0.00%	11.55%
Insurance (6/8)	42.50%	-42.22%	-11.43%	40.00%	36.00%	12.97%
Tourism and Leisure (17/25)	42.25%	-26.08%	-19.49%	35.72%	33.82%	13.24%
Banks and Finance (11/15)	35.10%	-50.94%	-7.14%	31.03%	67.27%	15.06%
Food and Household (12/29)	38.75%	-5.71%	1.90%	24.14%	24.07%	16.63%
Media (8/23)	26.67%	-7.29%	4.29%	36.56%	45.00%	21.05%
Average (195/374)	29.55%	-24.42%	-3.58%	26.82%	7.17%	7.11%

Intensity of Rivalry (CFI₁)

The results show that there is a perception across the board that the intensity of rivalry generally leads to an increase in the state of competition in all industries. With a range of 7.13% to 52.86% and an average of 29.55%, the perception of intensity of rivalry was positive for all industries, although it varied considerably from one industry to another.

The data suggests that there are significant differences in competitive factor scores across industries (see Table 2), and that these align with conventional views and other statistical data held with regards to competition. For example, considering variability of demand (Table 2), the *Retail*, *Transport*, and *Tourism and Leisure* industries all operate with well-established seasonal patterns (e.g. Christmas shopping period,

summer or mid-year holiday periods, and other events-based fluctuations of demands). The *Alcohol and Tobacco* and *Insurance* industries rated the growth rate in the industry as low, confirming the perception of these as mature markets in Australia (and perhaps indicating higher intensity of rivalry for market share) (ABS, 2000), when compared to *Computer and Office Services*, *Tourism and Leisure*, and *Industrial Services* industries, all of which are widely considered as high growth areas in Australia (tourism had a growth of 14.3% in 2000-01) (ABS, 2000). The data also showed that product differentiation plays a more crucial role in the *Alcohol and Tobacco* and the *Tourism and Leisure* industries than the *Building Materials* industry, which is in keeping with conventional marketing wisdom.

The Banking industry showed a significant amount of industry rivalry (35.1%) mainly due to a shift in competitive emphasis with the slowly fading away of regulatory protection and other collective imperfections, which had previously provided sustainable advantage in the industry (Mehra, 1996).

There was, however, no significant difference noted in the study in terms of the perceived degree of importance of Intensity of Rivalry across industries.

Table 2 – Significant Differences in Intensity of Rivalry Competitive Factor

Competitive Factor (F ratio, F prob)	Differences observed (μ_x and $\mu_{y(1, 2, \dots, n)}$)
Growth Rate (3.44, .0000)	<ul style="list-style-type: none"> • <i>Engineering</i> (2.78) and <i>Tourism and Leisure</i> (-1.18) • <i>Alcohol and Tobacco</i> (0.88) and <i>Computer and Office Services</i> (-1.25), <i>Tourism and Leisure</i> (-1.18), <i>Industrial Services</i> (-1.18)
Variability of Demand (3.34, .0000)	<ul style="list-style-type: none"> • <i>Banks and Finance</i> (-1.27) and <i>Retail</i> (.71), <i>Transport</i> (.75) • <i>Tourism and Leisure</i> (.82) and <i>Banks and Finance</i> (-1.27), <i>High Technology</i> (-.83), <i>Computer and Office Services</i> (-.75), <i>Engineering</i> (-.67)
Exit Barriers (2.19, .0049)	<ul style="list-style-type: none"> • <i>Tourism and Leisure</i> (.59) and <i>Computer and Office Services</i> (-1.00)
Product Differentiation (2.22, .0045)	<ul style="list-style-type: none"> • <i>Building Materials</i> (-.50) and <i>Tourism and Leisure</i> (1.78), and <i>Alcohol and Tobacco</i> (1.50)

Based on the alignment of the CFI ranking results with conventional wisdom perceptions, it appears that the ICM Framework appears to adjust reasonably to ‘equivalence’ and ‘mimetic behaviour’ statistical concerns. The dispersion of scores however, provides insights not possible in conventional approaches. For example, analysts can look for niches where there are few firms as rivals and then benchmark against them.

Bargaining Power of Buyers (CFI₂)

A surprise finding from the data gathered pertaining to this force is that it paints a bleak picture for customer groups: according to our results the marketing notion that “customer is king” does not seem to be borne out in reality. The bargaining power of buyers had a range of -50.94% to 3.33% and a fairly low average of –

24.42%. Clearly, the industries overall are perceived to command an advantageous position in their dealings with their customers. The industries showing the least buyer bargaining power are *Banks and Finance* (CFI of -50.94%), *Insurance* (CFI of -42.22%) and *Industrial Services* (CFI of -41.98%).

Our study showed that whilst there are many competing products/services in an industry, other competitive factors, such as low buyer purchase volumes, high level of importance of the products/services to the buyers, and low threat of backward integration by buyers, point to low bargaining power of buyers. Macro-economic cycles also play a role in shaping firms and industry perceptions in this area.

The above analysis demonstrates how the quantitative approach minimises a significant limitation of the conventional Porterian model, i.e. its univariate and linear simplification of complex relationships. This multivariate analysis enables competition to be viewed in the form of networks and clusters, with the forces each having multiple impacts on each other.

One-way ANOVA tests show that there is only one notable difference ($F=2.56$, $p=.0009$) amongst the 19 industries. The *Food and Household* industry rated the importance of its purchase volume at a mean of 1.17, a finding that confirms what other studies have shown about the presence of high collective bargaining power on the part of food and household industry players (Ratnatunga, 1995; Dobson *et al.*, 2001).

This figure is significantly different to the findings for the *Banks and Finance* (-.64), *Developers and Contractors* (-.58), and *Insurance* (-.47) industries. Our results suggest that individual customers or buyers in these industries have significantly less purchase volume, which weakens their overall bargaining power. It is important to draw the distinction here between individual and corporate buyers with regards to banking and insurance products and services: while individuals have little bargaining power, large corporate clients, such as airlines or pharmaceutical companies, may well have considerably more influence in these industries (Barrados, 1998).

The study found that there is no significant difference in terms of the degree of importance of Bargaining Power of Buyers across industries.

Bargaining Power of Suppliers (CFI₃)

Compared to buyers, suppliers were perceived as having more power in their dealings with the industries, but only at about a 'par' level of competitive bargaining strength. With a range of -23.57% to 8.98% and an average of -3.58%, their bargaining power was not perceived as a dominant force.

These were important findings in that these ranking can be used when considering supply-chain strategies. In terms of suppliers, the findings can be used to explore issues of balance and how to develop advantageous relationships. For example, if the supplier is exploiting its strong bargaining position (like the steel makers in the automotive industry) then a strategic response on the customer firm's part might be to explore alternative sources of supply or even alternative materials or processes so as to reduce this dependence. Equally if the supplier power is weak one strategy might be to exploit this weakness by tying the supplier into price reduction or other contract requirements which provide strategically advantageous inputs to the customer firm.

In comparison to other industries, the *Paper and Packaging* (CFI of -23.57%), *Automotive* (CFI of -22.86%) and *Tourism and Leisure* (CFI of -19.49%) industries rated their suppliers as having very little power. The main reason for this is that in such industries the suppliers are fragmented, so their bargaining power is low, which leads in turn to a lower level of competition. One significant difference across industries was noted ($F=2.14$, $p=.0062$) in the *Food and Household* industry, which rated the importance of its supplier's inputs highly, with a mean of 1.17.

The study found no significant difference in terms of the degree of importance of bargaining power of suppliers across industries.

Threat of New Entrants (CFI₄)

With a range of 13.89% to 40.00% and an average of 26.82%, the threat of new entrants is perceived to be real and credible by all industries. The data suggests that the industries face an average CFI of 26.82, ranging from the lowest threat of new entrants in the *Pastoral and Agricultural* industry (CFI of 13.89) (which is understandable given the finite limitation of land), to the highest threat in the *Insurance* industry (CFI of 40.00).

The fact that the *Insurance* industry was perceived as being susceptible to new entrants seems to run counter to the conventional association of industries with such liability having low economies of scale, low capital requirements and shallow learning curves that pose little barriers to entry. This might seem to raise questions as to the robustness of the ICM Framework approach - however, further analysis seems to indicate that it may be the robustness of the conventional wisdom that is questionable. *The Insurance Handbook (2005)* notes that whilst the average entrepreneur cannot come along and start a large insurance company, the threat of new entrants lies within the insurance industry itself. Some companies have carved out niche areas in which they underwrite insurance. These insurance companies are fearful of being squeezed out by the big players. Another threat for many insurance companies is other financial services companies entering the market. What would it take for a bank or investment bank to start offering insurance products? (Fjeldstad & Ketels, 2006). In some countries, the handbook notes that it is only regulations that prevent banks and other financial firms from entering the industry. If those barriers were ever broken down, as they were in the U.S. with the Gramm-Leach-Bliley Act of 1999, the perception is that the floodgates would open. These explanations supported the insights provided by the ICM Framework, adding to the credibility of its results.

The study found that there is no significant difference noted in terms of the degree of importance of this competitive force across industries.

Threat of Substitutes (CFI₅)

The threat of substitutes in the industries selected for study is the most varied of the five competitive forces, and the ICM Framework provided surprising insights in this area. The range stretches from -35.00% (*Automotive*) to 67.27% (*Banks and Finance*), with an average of 7.17% (see Table 1), which translates to a range of over 100 CFI points. In comparison, the ranges of the other competitive forces, i.e. the intensity of rivalry, bargaining power of buyers, bargaining power of suppliers and threat of new entrants are only 45, 55, 32 and 26 CFI points respectively.

The highest threats of substitutes are in the *Banks and Finance* (CFI of 67.27%), *Media* (45.00%) and *Insurance* (36.00%) industries. Further analysis of these results showed that the proliferation of non-traditional mortgage providers and the increased blurring of the industry boundaries can perhaps explain the threat of substitutes in the *Banks and Finance* and *Insurance* industry. The Internet also enables many new firms to offer services traditionally the domain of banks, finance or insurance industries.

The *Media* industry is also one where products are facing substitutes from the Internet (Robinson *et al.*, 2000; Hie & Hillygus, 2002). The high level of their perception implies that managers are well aware how important the Internet is to their overall operations, and are taking this threat to their industry (which relies on advertising revenue) seriously in their strategic planning. The industry has responded to this threat of Internet-based substitutes by openly embracing the new frontier, with many firms putting much effort into developing series of associated websites to promote their products and services. The blurring of industry boundaries is evidenced by the activities of such as AOL-Time Warner and MSNBC.

On the other side of the spectrum, the *Chemicals*, *Medical Services* and *Automotive* industries do not see themselves to be under threat from any substitute products or services. It is unclear whether the respondents actually perceive that there are no substitutes to their products or services, or whether the substitutes pose little credible threats (e.g. hard to switch and expenses involved in the switching process). *Medical Services*, for example, face “alternative medicines” as a possible substitute to their services, but respondents rated the threat of substitutes as very low.

Again, there were no significant differences noted in terms of the competitive force ratings for threat of substitutes across industries.

The above discussion demonstrates that the ICM Framework is a good 'starting point' for a more detailed industry analysis and an insight of a possible strategic response. However, it can be seen that interpretation of rankings must then be considered by further analysis of the position of a firm within that industry, industry niches and other supply-chain factors. The model provides a clear focus to the direction of this extended analysis, and is therefore of practical value to managers and other users.

6. CONTRIBUTION OF MODEL TO PROVIDING COMPETITIVE INSIGHTS

The major contribution of this study is the operationalisation of the Porter five forces model and its application across industries in a multivariate manner. In no prior study has the Porter model been applied quantitatively across a number of industries *at the same time*. The *Industry Competition Measurement Framework* described in the paper converts the numerous competitive factors in the Porter model into quantifiable signals of competition and examines the competitive positions of firms and industries from a comparative, rather than absolute, point of view. Competitive factors that have been identified as significantly different offer grounds for firms and industries to improve their respective competitive positions. Firms will improve their performance *within* their industry through the deployment of idiosyncratic 'advantage generating resources' tuned to industry conditions, while industries will improve performance *relative* to other industries through attention to ICM factors.

The second contribution of the paper is in the application of the model to selected Australian listed industries, both to demonstrate model robustness and to provide strategic insights not possible via the conventional univariate approaches. The paper has also attempted to cross-check the quantitative results obtained with conventional qualitative research conducted in specific industries, particularly in Insurance, Retail and Banking, and demonstrated a good 'fit' in the results obtained. Where surprising results were found, explanations have been sought in an industry context via further analysis of the data and the literature. This enhances the methodology and the generalisability of the model.

Standing back, what have we learnt? The model shows that there is a noticeable consistency in the impact of the five forces. Specific analysis of the five forces indicates that in general, industries are characterised by high intensity of rivalry, low bargaining power of buyers, minimal bargaining power of suppliers, high threat of new entrants and wide-ranging threat of substitutes. The more competitive industries such as Banks and Finance, Media and Insurance face significant threats from substitute products or services (e.g. through new technologies such as the Internet and e-commerce).

A detailed analysis of the results shows that whilst the *intensity of rivalry* was positive for all industries (although it varied greatly from one industry to another), the average *bargaining power of buyers* was extremely low. Clearly, most industries commanded an advantageous position in their dealings with customers. A surprising finding of the study is that the marketing notion of "customer is king" is not a perception shared across most industries. While the *bargaining power of suppliers* was not a dominant force in many industries, they were perceived as having higher bargaining power in their dealings with their industry than the buyers, most likely also due to 'relative volume' factors. This again was an important finding having significant supply-chain impacts in niche markets.

The *threat of new entrants* was perceived as real and credible by all industries, the highest being in the Insurance industry. It may appear surprising that the Insurance industry appeared to be susceptible to new entrants, but when this threat is linked to the availability of substitute products from other industries such as Banks and Finance, the result is more understandable. In fact, the results indicated that the *threat of substitutes* in the industries selected for study is the most varied of the five competitive forces, and high on the list of industries facing such threats were Banks and Finance Media and Insurance industries.

All of these results sit well with conventional wisdom and the results of other studies, once again demonstrating that the model is well grounded and generalisable. This, of course is to be expected, being based on the reported strengths of Porter's Five Forces model that led to its wide acceptance and conventional use. The results can give managers confidence in using the quantified approach to Porterian

analysis being postulated here, especially as it provides deeper insights and a clearer directional focus for further analysis.

Finally, the resulting ranking of competitiveness in Australian industries provides identification of significant competitive factors and offers grounds for firms and industries to improve their respective competitive positions. They also provide benchmarks for future studies.

Limitations and Future Research Directions

As with any empirical investigation this study has limitations and shortcomings that warrant further attention in future research.

First, the study can be enhanced by further clarifications of industry boundaries and the inclusion of more firms that represent a particular industry. In addition, whilst the industry response rates are high, the underlying number of listed firms in Australia is low, resulting in only a handful of responses in some industries. Similarly, the research has been carried out in one cultural and market setting (Australia) and replication in other countries would be desirable in order to gauge the extent to which the constructs developed are applicable across national boundaries. We have tested this by cross-checking our results to other (single) industry studies, and the results appear to be confirmed.

Second, the measurement of industry competition is based on Porter's five forces model. Although this is perhaps the most popular and universally accepted model of competition, the results of the study hinge upon on how well this model fits reality. For example, the Porter model argues that an industry with high growth rate is likely to be less competitive than one that has a low growth rate. This does not seem to mirror observations in many newer industries such as telecommunications, Internet and other technology industries, where both competition and growth rates appear to be high. While efforts were made to take into account the possibility of differing levels of importance of each competitive force, this study would have benefited from a competitive-factor rating as well (e.g. is "product differentiation" more important than "switching costs"?). Remembering that the Porter model was developed nearly a quarter of a century ago, a possible future research area is to test if the competitive factors in the Porter model adequately explain competition in the 21st century.

A further limitation of the research pertains to the role of the managerial categorisation processes (i.e. the formation of managerial perceptions with regards to competitive groups) in that we do not have an understanding of how managers' form beliefs about competitors, and how managers' perceptions, decisions and actions interact in the creation of competitive boundaries (Porac *et al.*, 1989; Porac & Thomas, 1990). This issue must be tackled in any future research on managerial perceptions.

Future research could also usefully focus on the interaction of industry factors, as developed here, with firm specific factors, in seeking to explain performance variations among firms within industries more fully. Specifically a study which correlates industry competitiveness with firm (and industry) profitability would be interesting, as would a study on how market concentration, market size, organisation density and size distribution impact upon the (evolution of the) shape of the underlying resource landscape. To the extent that accounting returns measure the presence of economic rents, by far the most important sources of rents in businesses are due to resources or market positions that are specific to particular business-units rather than to corporate resources or to membership in an industry. Put simply, business units within industries differ from one another a great deal more than industries differ from one another. In this regard insights from the resource based view developed over the past two decades in the strategic management literature could usefully be combined with the model developed above (Rumelt, 1991; Wernerfelt, 1995).

Finally, another possible further area of refinement is that of aggregating markets which are business-to-business from supplier to end-user. A tailor-made study could, for example, consider the impact of the five forces across a specific number of firms in industries linked across a supply-chain. For example, if a study of the fast moving consumer goods (FMCG) industry in Australia may show that those industrial processing firms supplying to supermarket chains in the retail industry would perceive that the bargaining power of their buyers (the supermarket chains) to be high. Thus an application of the model to supermarket supply-chains should show the bargaining power of their suppliers (the food processors) to be low.

In summary, the ICM framework offers a perspective of competition measured as dispersion from the average stage of competition based on Porter's Five Forces Model. Having applied it to the selected Australian industries and validated its results with other studies, the framework offers a new insight into how various competitive factors increase or decrease the level of competition in an industry. The application of the ICMA framework as a tool of business analysis has the potential of significantly enhancing our understanding of how competition works.

APPENDIX

Appendix 1: Equivalency or Response Bias Issues

An important aspect of considering industry niches is equivalency or 'response bias', i.e. a systematic tendency to respond to a range of questionnaire items from some basis other than the specific item content. This tendency has been observed in various disciplines, especially in cross-cultural research.

While there is some evidence of equivalence issues, where managers tend to develop strategic group representations based on categorisation processes in order to simplify and make sense of their competitive environment in cross-cultural studies, the situation is unclear in studies of same industries, where some studies showed that strategic group cognitions are largely homogeneous whilst others have reported opposite results (Porac *et al.*, 1989; Dornier & Karoui, 2003). On the basis of these conflicting results, this study chose not to undertake procedures for controlling for acquiescence or equivalence issues. Instead, the researchers made the simplifying assumption that the respondents would have both positive and negative skewing in their personal scales, and that these would, on average, cancel each other out, resulting in the reported average being a reasonable surrogate for the 'true' average.

There are two contrasting implications of such an assumption in terms of this paper. One view is that the consensus opinion could be quite wrong as the respondent scales could be skewed differently in a systematic direction for different industries. A counter view is that the existence of such a diversity of views would actually provide a strong case to justify the approach taken in the paper in that competitive forces are not obvious to all those in the industry and a quantitative approach should be taken in obtaining a consensus view. The situation that, in a single cultural setting, there is little evidence to indicate that any such skew would be only in one direction could be said to be similar to findings in psychological research, for instance, where there is evidence is that the skew can both positive and negative amongst respondents in a single study (Spender, 1993; Krueger & Funder, 2004).

It is recognised however that omitting a factor accounting for the acquiescent response bias could lead to a biased assessment across the groups under study. Therefore, care was taken such that the firms that have different perceptions of how the competitive forces operate were given different weights because they possibly represented a different conception of the industry from the overall Australian industry consensus.

Despite these differing weights been used, it is recognised that in comparing the competitiveness scores of different industries, some further research may be required in adjusting for equivalence. Further, whilst the research study undertaken in this paper was essentially to demonstrate the practical applicability of the ICM Framework across industries, the quantitative methodology detailed in this paper could be used in whatever way industry niches are defined.

Appendix 2: The Most Competitive Situations under the Porterian Model

- **Intensity of Rivalry:** *low industry growth, high surplus production capacity, high variability of demand, high informational complexity, high exit barriers, low product differentiation, low value-adding activities, high corporate stakes, low switching costs, high diversity of competitors and low industry concentration.*

- **Bargaining Power of Buyers:** *high number of competing products, low number of buyers, high importance of buyers' purchases volume, high knowledge of cost structure, low importance of industry outputs, and high buyer's threat of backward integration.*
- **Bargaining Power of Suppliers:** *high supplier switching costs, high importance of supplier's input, low number of suppliers, low importance of sales volume to suppliers, low availability of substitutes, high threat of supplier's forward integration and low threat of industry's backward integration.*
- **Threat of New Entrants:** *low economies of scale, low capital requirements, high access to distribution channels, low learning curve, high level of pro-competition government policy, and high expectation of retaliation from existing firms.*
- **Threat of Substitutes:** *high availability of substitutes and low substitutes switching costs.*

Appendix 3: Competitive Factors in the Five Forces Model

The statements below were used to measure the direction of the competitive factors on a 5-point Likert scale (1=strongly agree, 2=agree, 3=neutral, 4=disagree and 5=strongly disagree). All scores were then recoded such that competitive factors which strongly increase competition is scored at +2 and those that strongly decrease competition at -2.

Question asked were as follows

(Note: within sections the questions were mixed-up so that respondents were not alerted as to which competition factor was been tested):

Section 1: Intensity of Rivalry

*The following statements relate to the **intensity of rivalry** among existing firms in your industry. Please indicate your agreement or disagreement by circling the corresponding response. (1=strongly agree, 2=agree, 3=neutral, 4=disagree and 5=strongly disagree).*

A. Intensity of Rivalry

1. The growth rate of my industry is very low
2. The surplus production capacity of my industry is very high
3. Demand for products / services produced by my industry is very seasonal
4. My organisation requires complex information to conduct its operations
5. It is difficult for current firms to exit (leave) the industry
6. There is high value for brand identify or product differentiation in my industry
7. We do not perform much value-added activities
8. There is very high pressure (e.g. from shareholders, parent company, etc) to perform well
9. It is very easy for my customers to switch to my competitors' products or services
10. My competitors pursue very similar strategies to those of my own organisation's
11. My competitors vary greatly in size

Section 2: External Industry Environment

*The following statements relate to the **external environment** of your industry. Please indicate your agreement or disagreement by circling the corresponding response. (1=strongly agree, 2=agree, 3=neutral, 4=disagree and 5=strongly disagree).*

7.

B. Bargaining Power of Buyers

12. We have very few competitors in this industry
13. There are numerous competing products or services available to my customer

14. There are numerous customers in the industry
15. Most of my business comes from high-volume customers
16. My customers have a reasonable knowledge of my costs or cost structures
17. My products or services are very important to my customers' businesses or styles of living
18. My customers can easily produce the products/perform the services they currently purchase from us (backward integrate)

9.

10. C. Bargaining Power of Suppliers

19. Cost of switching from one supplier to another is very high
20. Suppliers' input (raw materials, goods and services, etc) are a large part of the costs of my finished goods/services
21. The number of suppliers to my industry is very limited
22. My firm's purchase volume is very important to my suppliers
23. Substitute or alternative (not directly competing) inputs are readily available
24. My suppliers could easily enter my industry (forward integrate)
25. My organisation could easily produce the materials / perform the services we currently purchase from our suppliers (backward integrate)

D. Threat of New Entrants

26. There are significant economies of scale in this industry
27. There is a high capital requirement to enter this industry
28. Prospective new entrants to my industry have limited access to distribution channels
29. There is significant learning curve (e.g. technical know-how) to enter this industry
30. Government policies favour firms currently in industry
31. When a new competitor enters the industry, existing firms often retaliate strongly

11.

12. E. Substitutes

32. Customers can easily switch to substitutes and/or alternative (not directly competing) products/services
33. There are high costs associated with switching to substitutes and/or alternative (not directly competing) products/services

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TARGET COSTING SYSTEM FOR GAINING POWER OF SUSTAINABLE COMPETITION AND AN APPLICATION OF SYSTEM IN A MANUFACTORY ENTERPRISE

Şerafettin SEVİM
Dumlupınar University, Turkey

Orhan ELMACI
Dumlupınar University, Turkey

Abdullah GAYRET
Gürallar Artcraft Tableware Glass Co., Turkey

ABSTRACT

Target costing is a strategic management tool that always tries to get lower cost of the product for whole product lifetime. Traditional costing methods can not meet the needs of the enterprises, because affects of the global competition is getting harder, the lifetime of the products are becoming shorter and the conditions of the market is being formed by the demands of the customers which are always changing.

Under the effects of the global competition, the strategy of getting lower of the prices and the costs like as target costing is becoming a strategic tool. Target costing which is directed by price with design orientation that needs to be worked as matrix based working groups is a profit planning and cost management system. Enterprises must satisfy their customers about quality, functionality and price by using their specialty on product development for keeping standing in the market and being competitive.

Basically, target costing is used for product design and development stages at where it is more effective. More than 85 percent of product cost is figured at design process, that's why cost management must be started at design level. Target costing process is started by defining the selling price which is obtained by detailed analysis of the market. Enterprises can get the target cost by subtracting the profit share from the selling price. In target costing, the cost is an input of the product development process, it is not an output.

In this paper, applicability of Target Costing system in tableware glass manufactory enterprise is to be aimed. While marketing a new product, customer needs and enterprise needs are considered at the design stage. That's why, target sale price and target profit margin are defined at this stage. To achieve these targets, target costing process is applied to design, production and purchasing processes. Whereupon, target cost is obtained by using cost reduction techniques. Thus, the cost of new product is reduced to a level which the customers willing to pay, and also a level which enterprises gaining the power of competition. Consequently, this study shows that Target Costing can be used in manufactory enterprises for marketing new products.

Finally, the cost reduction pressure issued by using target costing system must be applied onto the design, production and purchasing processes. For reaching to the defined price according to the customer demands, the cost reduction techniques have to be used. After reaching the target price, target costing system is disciplined to guarantee the sustainability of this system in the flow of the enterprise processes. Providing the sustainability of the target costing system means that gaining the power of the global competition.

Keywords: target costing, cost management, product design, product development, product pricing, sustainability

INTRODUCTION

Target costing is a cost management technique that is used for cost reduction with the contribution of production, engineering, research and development, marketing, and accounting departments (e.g. Michiharu Sakurai, 1990). Target costing is a planning tool that helps us to identify the features to be improved and helps us in setting targets for designing and cost reduction (Cooper and Slagmulder, 1997). Target costing technique focuses on searching opportunities for cost reduction at the product planning stage as well as and providing continuous cost reductions (Sakurai and Scarbrough, 1997). It is a multidisciplinary tool while traditional costing methods focus on departmental burden; target costing calls attention on customer needs and product design (e.g. Robin Cooper and Bruce W. Chew, 1996). Therefore, target costing is more similar to engineering and management than accounting. Successful applications of target costing require value engineering and cost engineering tools (e.g. Michiharu Sakurai, 1990). Target costing enables product development groups to develop products, not only acceptable quality for the market and also acceptable price for target customer segment (J.M. Brausch, 1994).

This paper aims to show applicability of Target Costing system to market new products which can make enterprises gain target profit margin and meet customers' demands and desires, in order to get power of sustainable competition for especially standard products in tableware glass market.

For marketing new products, determination of customers' demands and needs, product, target sale price and target profit margin tasks are carried by Marketing and Sales Department, for reducing cost, using cost reduction techniques with applying cost pressure to processes is done by Design, Production and Purchasing Departments.

At the first step of application study, cost analysis of the initial product design is done. By using adding-up method target cost is determined. Afterwards, a study is done to get market-level target costing. Therefore, customer needs and desires are determined to take into consideration in design stage. Target sale price and target profit margin are defined at this design stage. To achieve target profit margin, product-level target costing study is done. In this study target cost is determined via adding-up method. Hereafter, a cost analysis is done for final product design, with the new product characteristics and production parameters. To fulfil target cost, cost reduction techniques are applied to design, production and purchasing processes. Eventually, target cost is obtained via cost reduction techniques.

THE CONCEPT OF TARGET COSTING, PROCESS AND TECHNIQUES

Target costing is a strategic cost and profit management process. Conceptually, target cost is a acceptable level of cost which can provide target profit margin for enterprises via target sale price accepted by customers.

Target costing lays out a Japan originated cost management concept and generates information to assist strategic decisions of enterprises in a competitive market environment. Basically, target costing means;

- Setting sale prices for future products in the target market
- Subtraction target profit margin from sale price
- Determination target cost of product to be produced.

Target Costing Process

Target costing comprises the profit management for all functions of the enterprise during product development process stage. The tasks to do for all functions of the enterprise can be listed as below.

- Plan the product quality that satisfies the customer.
- Define the target costs that can provide the profit which is required not only to be able to produce new product in the mid and the long term but also to meet the investment costs in the market conditions.
- Design models to make the product design reach the target cost.

- Meet the customer needs in terms of quality and short delivery time.

Target costing process must be arranged to support the profit planning of the enterprise and joined into the general profit management. In the application stage of the target costing, the answers of the questions below are searched;

1. What are the long term marketing and profit strategies of the enterprise?
2. Where will be the target life zone when new products are produced?
3. What is the target profit margin?
4. How much the cost reduction level is realistic?
5. How can the aim of cost reduction be obtained?
6. Are there any outdoor conditions to force the target cost to be flexible?
7. How can the aim of cost reduction be shared among the product parts?

In order to be effective, target costing processes must be much disciplined. As Figure I indicate, the sub-processes of the target costing can be classified into three groups like;

- Market Level,
- Product Level and
- Component Level.

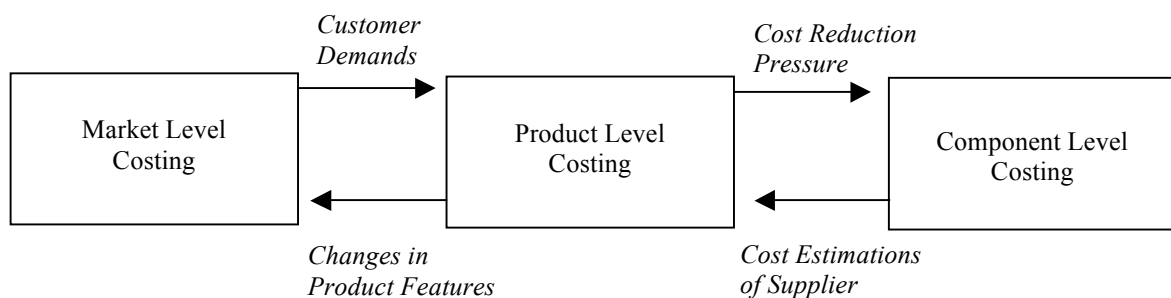


Figure I: A representation of process and relations in Target Costing

Market Level Costing

Target costing process begins with market level costing and the aim of this process is to define acceptable cost of the products that will be produced in future. Acceptable cost is the cost that the product has to be cost to gain desired profit in case of selling the product with the target sale price. Market level costing can be separated into five basic steps.

- Defining long term sales and profit aims.
- Planning the product lines entirely for maximum profitability.
- Defining target sale price.
- Defining target profit.
- Calculating acceptable cost.

Product Level Target Costing

The aim of the product level target costing is to define reachable product level target costs. These target costs must create pressure for the product designers to find the ways for reducing the product costs. Product level costing can be separated into three steps:

- Defining target cost,
- Obtaining target cost,
- Disciplining target costing process.

Component Level Costing

In this stage of the process, product level target cost is separated into component level and it is being defined that the prices of the components which the enterprise willing to pay. In other words, while the enterprise is defining the level target costs, it is already defining the sale price of the components which are produced by

its suppliers and also it is focusing to find the ways for its suppliers to design the components with lower costs. In order to realize this aim, the suppliers are using inter-organizational costing, while they are creating new communication channels between the customers and the product designers.

Methods of Defining Target Cost

For defining target cost, three different methods are used. They are subtraction method, addition method and combination method.

Subtraction Method: The basic factor in defining target cost by using subtraction method is the prices that are given by the competitor firms. The product target costs in the subtraction method are calculated reversely beginning from the sale price which is founded from the market searches. While the sale price of the product is being created, the market conditions, customer needs and the competition situation are more cared about than the product cost. After that, the profit that enterprises expect is defined. Also, while this profit is being defined, the customers in the market and the competitor firms must be aware of. In order to calculate the target cost, the profit which is defined by the enterprise is subtracted from the sale price which is created by the market.

$$\text{Target Cost} = \text{Target Sale Price} - \text{Target Profit}$$

Addition Method: According to the addition method, while the target cost is being created, it is started from the indoor factors and the capacity subject. In the addition method, three different factors can be taken into consideration. These factors are equivalent products, design features and new rapprochements.

Equivalent Products: In this method, the target cost is defined in accordance with the equivalent products or equivalent blocks. This kind of target cost is figured out from the past production experiences.

Design Features: While the target cost is being defined by taking into consideration the very important design features, the statistical techniques are even used like factor analyze and regression analyze. As the easiest way, the past data are used for equivalent products as an rapprochement by finding the relation between the normal real cost and one of the specific design features.

New Rapprochements: This method includes the usage of the some basic functions of the product or the some basic dimensions in case of reaching the new rapprochement that is never used before in the enterprise. At this point, if the new rapprochement is giving useful opportunity of reducing costs, its application can be appropriate.

Combination Method: Combination method is joining the addition method (depending on existing technology and abilities) and the subtraction method (depending on the market rapprochement). This method even includes the evaluation process that is made after obtaining the results from addition and subtraction method. Even if addition method is playing more important role in combination method, it is ignored that the mentioned method is the method that joins two methods and giving target cost for a long term view.

GAINING POWER OF SUSTAINABLE COMPETITION THROUGH TARGET COSTING

In the most recent period, change and transform, the world lived result from the structural change in the free market economy. In other words, the structural tissue of the free market economy has evolved from product-focused to information-focused. This evolving process eventuates rapidly. This global change and transform process affects both the sub-structure and upper structure of the countries. The countries who have poor structural systems, in spite of having sufficient own physical resources may have less per capita gross national product and growth rate than the other countries who have inadequate own- resources but make significant investment to infrastructure. In business terms, this transformation trend increases pressure on genetic staff of businesses, customer, technology, product manufacturing processes, human resources, management styles, internal business climate and corporate culture of a business, etc. This transformation also makes compulsory the requirement of recoding the genetic code as a customer focused. Because these

countries and businesses which have not competitive power at this market may not possible maintain their lives. Competitiveness of a business is an indicator of the ability of costumers that provides to prefer the products produced by enterprises persistently in the view of their substitutions. There are two critical factors that affect this capability. One of them is productivity and the other is growth (sustainability). While productivity has its train to increase general level of efficiency and cost advantage, growth (sustainability) has its train to capture the revenue opportunities and to enrich the customer value.

To keep the enterprises standing in the market that is under control of the global competition, the customer demands must be placed at the first priority of design, production and logistics processes. That's why, there is an obligation to use the management tools which are costumer demands oriented. In order to gain the power of sustainable competition, using target costing system as a strategic management tool is one of the most effective methods.

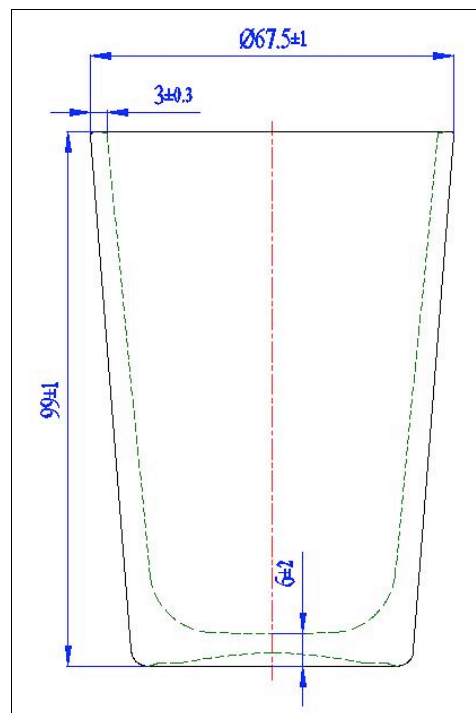
MARKETING NEW PRODUCT USING TARGET COSTING TECHNIQUE IN TABLEWARE GLASS MANUFACTORY ENTERPRISE

GURALLAR ARTCRAFT was founded to produce tableware glass according to customer demands by using automation system completely in 1994 by Gürok Turizm Ve Madencilik Co.

In order to market the new product, the production cost parameters which are created in Design, Production and Purchasing Processes are given to Marketing Department who calculates the product costs by using existing cost component structure. All cost data in this paper are provided via this method.

Design Process of Initial Product

Domestic Sales Team gives all the detailed design data which are collected from the customers in the market according to their needs to the Design Team that is also working under control of The Marketing and Sales Department. The defined product specifications create the design inputs which are required for Design Team. Figure II shows the artwork of product done by design department.



**Figure II: Artwork of the initial product design in the light of customer demands
Defining Target Sale Price and Target Profit**

In the study of defining target sale price for the new product, all the indoor and the outdoor factors of the enterprise are taken into consideration. Firstly the required data about desired price value of the customers are collected for the new product which is designed according to their demands. In addition, as an outdoor factor, the sale prices of the competitor's products in the market that are equivalent to the new product are searched. In result, in accordance with the required collected data and the board members of the enterprise's strategic view for the new product, the all studies are completed and the target sale price of the initially designed product is defined as 0,50 TL / piece.

In order to define the target profit, one of the most important factors is positioning of the new product in the existing product range of the enterprise. The data come from the costumers and the market show that the sale volume of the new product is going to be high and keep its sale level stable through the year. According to the study of the Marketing and Sales Team in the light of these all data, the target profit ratio of the new product is defined as % 12.

Product Level Target Costing

The competitor's prices for the equivalent products are the basic factor in the study of defining target cost by using subtracting method. For the new product, all required searches are already made for getting created price data from the market and in order to define the target sale price also utilized from these data. The product target costs in the subtraction method are defined reversely beginning from the sale price which is created in the market. The target profit is subtracted from the target sale price in order to calculate the target cost of the new product.

$$\begin{aligned} \text{Target Cost} &= \text{Target Sale Price} - \text{Target Profit} \\ \text{Target Cost} &= 0,50 - (\text{Target cost} * 12 / 100) = 0,446 \text{ TL.} \end{aligned}$$

Cost Analysis for Initial Product design

The features of the initial product design which is designed according to the customer demands are given and in the light of these data, Production Team illustrated the production process parameters in Table I. In accordance with these production parameters, the cost calculation of the new product is given in Table II.

Table I: Production parameters and product features of initial product design

<i>Production Parameters</i>		<i>Product Features</i>	
Weight (gr.)	220	Weight (gr.)	220
Production Rate(product/min)	76	Height (mm)	99
Efficiency (%)	80	Mouth Diameter (mm)	67,5
Production Loss (gr.)	55	Base Thickness (mm)	5
Total Weight (gr.)	275	Volume (cc)	210
Daily Production (products)	87.552		

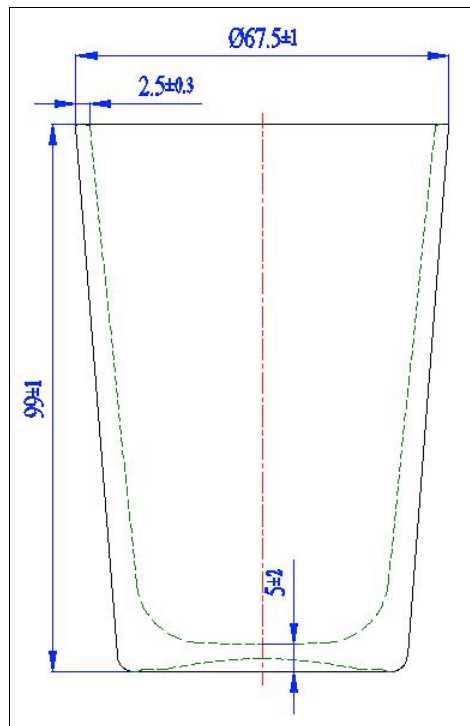
Table II: Cost analysis of initial product design under given production parameters and product features given in Table I

Cost Analysis (TL per Product)	
Material Cost	0,144 TL
Packing Cost	0,049 TL
Other Variable Cost	0,051 TL
Direct Labour Cost	0,039 TL
Energy Cost	0,051 TL
Shipping Cost	0,039 TL
Cost of Depreciation	0,057 TL
Burden	0,025 TL
General Administration Cost	0,051 TL
<i>Total Product Cost</i>	<i>0,506 TL</i>

The target cost is calculated 0,446 TL by using the target sale price and the target profit ratio, however, according to the existing cost structure of the enterprise, the cost of initially designed product is calculated 0,506 TL. As it can be seen that in the existing conditions, the cost of the product will be higher than the defined target sale price which will make it impossible to market the new product. For that reason, the cost reduction methods must be applied to processes.

Application of Benchmarking Technique in Design Process

Firstly, the weights of the equivalent products in the market are searched and it is noticed that the weight of the new product is heavier than them between %8 and %12. For not only providing the competitor's products weight but also not causing any quality defects in the production process, the sidewall and the bottom thickness of the new product is redesigned. The important thing in this step, the final design must exactly meet the customers' first priority which is inside volume of 200 cc and it must not affect the product negatively in customers' opinion. Artwork of final product design is given in Figure III. Every design which will not meet the customers' demand and every design which will affect the quality of the product negatively are going to create a product that is not accepted in Target Costing System.



**Figure III: Artwork of the final product design in the light of customer demands
Application of Kaizen Costing Technique in Production Process**

Firstly, in forming team of production department, the production speed of 76 pieces / minute and the production efficiency of %80 which are the production parameters of the new product are cared about. The brain storm meetings are arranged to find the new ideas to pull the production speed and the efficiency up. After meetings, making improvements about two subjects are decided.

The first subject who affects negatively the efficiency by breaking down the forming line and limits production speed is about the main servo motor that is used for driving the machine table. After searching deeply about this problem, it is found out that the cooling system of the main servo motor is not enough to cool down the system effectively. As a result of required scanning, appropriate cooling system equipments for the motor is found and provided. The trials with new cooling system shows that exceeding temperature is avoided so that the production speed reaches 78 pieces / minute and the efficiency reaches % 82.

The second decision is to make new design for the application about new product holding equipment at transfer points to pull down the production losses. This solution is just for avoiding losses to affect the efficiency positively and even rising up the production speed can be tried. The design of the new production holding equipment is applied then seen that the result is positive. It can be managed that the production speed will be 80 pieces / minute and the efficiency will be % 84. Table III indicates the production parameters of initial and final product products' production parameters.

Table III: Production parameters of initial product design and final product design

<i>Production Parameters</i>		
	<i>Initial Design</i>	<i>Final Design</i>
Weight (gr.)	220	200
Production Rate(product/min)	76	80
Efficiency (%)	80	84
Production Loss (gr.)	55	38
Total Weight (gr.)	275	238
Daily Production (products)	87.552	96.768

Cost Reduction in Purchasing Process

The Purchasing team works on the material cost parts of the new product to decide which subjects are prior to get the costs lower. In result, two main cost subjects are chosen to improve.

Raw material: The meetings are held with the existing suppliers. It is declared to them that supplying raw material is impossible for the new product with current prices and also it is strictly need to make cost reduction. For supplying raw materials with price advantage, the suppliers are requested to apply this cost pressure to their processes and to quote new prices that can be as low as possible in result of these works.

Packing: The meetings are held with the existing suppliers. It is declared to them that supplying packaging material is impossible for the new product with current prices and also it is strictly need to make cost reduction. For supplying packaging materials with price advantage, the suppliers are requested to apply this cost pressure to their processes and to quote new prices that can be as low as possible in result of these works.

After evaluation and improvements, for supplying raw material and packaging material, the most appropriated prices are given by existing suppliers as reduction of % 10.

ACHIEVING TARGET COST

In order to reach target cost by applying cost reduction techniques to Design, Production and Purchasing Departments, the result are managed to get is listed below:

- In Design Process, after benchmarking works in the market fort he equivalent products, the weight of the product which define raw material quantity is getting lower from 220 gr. to 200 gr. by making new design.
- In Production Process, after making improvements to the forming production line, the production speed is raised from 76 pieces / minute to 80 pieces / minutes and the efficiency is raised from %80 to %84.
- In Purchasing Process, after applying cost pressure to the suppliers, the cost reduction is obtained for raw material and packaging material as both %10.

Cost Results

Consequently, after application of Target Costing system with using cost reduction techniques unit price of the new product is calculated. The cost analyse of initial and final product designs are given in Table IV.

Table IV: Cost analysis of initial product design and final product design and cost differences among product designs

Cost Analysis (TL per Product)			
	Initial Design	Final Design	Difference (Initial – Final)
Material Cost	0,144 TL	0,112 TL	0,032 TL
Packing Cost	0,049 TL	0,044 TL	0,005 TL
Other Variable Cost	0,051 TL	0,051 TL	-
Direct Labour Cost	0,039 TL	0,035 TL	0,004 TL
Energy Cost	0,051 TL	0,051 TL	-
Shipping Cost	0,039 TL	0,035 TL	0,004 TL
Cost of Depreciation	0,057 TL	0,051 TL	0,006 TL
Burden	0,025 TL	0,022 TL	0,003 TL
General Administration Cost	0,051 TL	0,046 TL	0,005 TL
<i>Total Product Cost</i>	<i>0,506 TL</i>	<i>0,447 TL</i>	<i>0,059 TL</i>

The cost of the product is decreased nearly %12 by the Target Costing system. As it is designated in Table IV, biggest part of the cost decrease is on account of reduction material cost. This figure reveals the importance of design process.

CONCLUSION

With rising global competition, the conditions of the market are getting more difficult and the customer's demands are getting more complicated. It changes the mind of the enterprises that we can sell anything with any cost by defining prices ourselves to add the profit to the existing cost. The enterprises can stand and compete as long as they can meet the flexible customers' demands in terms of quality, price and functionality. In order to adapt these changed conditions, the enterprises have to follow the improvements and the innovations and to apply them into their processes. These points bring new rapprochements in terms of cost and account management. One of these new rapprochements is Target Costing as a strategic management tool which is born in Japan.

Cost of product is defined as 85 percentage in design process and after design process during production applying cost reduction techniques bring much difficulties and high losses so that it must be focused on the costs during design process before production. The truths of being defined prices by market and being defined costs mostly by design force enterprises to manage costs before creating product and rise up the importance of market oriented target costing. Target Costing is not only a strategy focused dynamic cost

management system which is formed by market demands and firstly aims customer satisfaction but also a way of getting power of sustainable competition in global market.

This paper shows the benefits of Target Costing System in production industry. Achieving target cost is a crucial need for the enterprises to sustain competitive power. The calculations made in this study show the importance of controlling costs. The cost of the product is decreased by 12% and the profit margin is increased to 12% which is equal to target profit margin. These results and conclusions can be generalized for other companies in the any sector. Under competitive market conditions it is important to set sale price which customers are willing to pay and at the same time brings enterprises target profit margin.

Target costing system is not only applicable for production industry; it is also available for other sectors, the concepts have been universal. Target costing system can be studied for other sectors as a future work for controlling the costs. Regardless of what they produce, target costing system can ensure enterprises to achieve target profit margins. We will concentrate our future work on the completion of fully implementation of the Target Costing system to tableware glass industry to improve the competitive power of enterprise.

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INTERNATIONAL COMPETITIVE ANALYSIS OF BORON IN ENERGY SECTOR ACCORDING TO MICHAEL PORTER'S DIAMOND MODEL

Şerafettin Sevim

Kütahya Dumlupınar Üniversitesi, Turkey

Orhan Elmacı

Kütahya Dumlupınar Üniversitesi, Turkey

Emel Altın

Çanakkale OnSekiz Mart Üniversitesi, Turkey

ABSTRACT

In recent years the world energy resources shift from fossil fuels to renewable energy. In spite of strategic geographical condition and various renewable resources of Turkey there is a fossil fuel dependency of other countries. Turkey has been able to turn these disadvantages to advantage by way of giving importance to R&D activities on boron technologies for storage and transportation of hydrogen energy. Turkey has 72% of the world boron reserves and know-how of Sodium Borohydrate production. Sodium Borohydrate is a compound that enables to store and transport hydrogen energy. Its productivity level is 95% in Turkey. It is a significant opportunity for Turkey who wants to become a leader of the energy sector. This paper analyzes the international competitiveness level of Turkish boron in energy sector by using Porter's Diamond Model. It explains main features of competitiveness structure of industry, and also, suggests strategies to evaluate potential better. Primary and secondary research collection methods (the written literature, sector reports and interviews) are used for methodology of research.

Keywords: Boron, Hydrogen, Michael Porter's Diamond Model, International Competitiveness, Energy Sector

INTRODUCTION

Energy as a physical quantity is an input which should be used in production. Its consumption rate is regarded as an indicator of development of countries. Without its presence, it is not possible to mention production, consumption, economy and human life. (Bahar, 2005: 35) Energy has a strategic importance in the macro-and micro-sized development plan of countries. Moreover from the simplest to the most advanced technologic products used in daily life, all depend on energy. Hence, energy should get by way of continuous, reliable, clean and inexpensive. Because of the energy storage problem and environmental awareness, developing countries ensure economic-ecological balance and planning of effective usage approach instead of only resource allocation and production. (Maç, 2006: 1; Pamir, 2003: 1)

Energy consumption has increased because of the life style in Turkey (TBMMO, Metalurji Mühendisler Odası, 2006: 15). Although strategic geographical condition as an energy transmission line conjunction between gas and oil producers (Russian, Africa, Middle East) and consumers (Europe, North Africa, India, China, Japan) and various energy sources of Turkey, current energy resources can not meet demand and the consumption balance has shown downward trend (Türkyılmaz, 2007:70).

As a natural consequence of fast industrialization, globalization, increased population, exhausted fossil fuels, unbalanced distribution of resources on the world, increased energy costs, crisis and increasing environmental pollution, countries has tried to find easy ways to access energy sources directly. They also switch out renewable energy resources. In spite of dependency of other countries in Turkey, there is a potential to turn this disadvantages to advantage by way of giving importance to R&D activities, applying

right energy policies, making supporting law and increasing the rate of capacity utilization in production. Beside these, it is required to strengthen industries wherein energy is an important input.

After the oil crisis in the 1970s, unstable character of oil prices has increased the importance of energy supply security and the sustainable usage of energy resources. Global warming and climate change force countries to balance between economic activities and the environment (Kum, 2009: 208). In this model, the researches and investments on renewable energy sources (hydroelectric, geothermal, wind power, solar energy, bio fuels and hydrogen) has been increased. Renewable resources have potential to be used as primary energy instead of fossil fuels in transportation, housing and heating industry. In recent years, countries have begun to give importance creating policies about wind, solar and hydrogen energy. Savrul (2010: 49) argued that production and consumption turnaround in renewable energy is about 12%, whereas fossil fuels production and consumption has decreased about 1% between the years 2001 and 2008.

As a renewable energy, wind power is a circulation patterns in the Earth's atmospheres that are driven by heat from the sun. Wind turbines convert the stream of air into electrical energy. While wind tribunes cover large area, create noise pollution and have some quality problems about generating electricity, reduces fuel costs, risks and economical and political dependency of others countries unlike conventional power plants. (www.enerji.gov.tr, Access Date: 19.04.2010)

Another renewable energy source is solar energy that is there for the use of home-heating, hot water needs, electricity generation, solar thermal systems and solar batteries. Electricity production from solar energy however is there for the use of satellites, calculators, watches, street lights and traffic signals in practice. Another use of solar energy is electricity supply for home, work place, villages, farms or communication facilities which locate out of the network. (Çolak et al., 2008: 40)

In future, world will meet a significant part of its energy demand from hydrogen. As an energy carrier, hydrogen is one of the most abundant elements in the world. Hydrogen is not found in nature as an element but it can be obtained in various ways. Hydrogen energy is the cleanest energy among the others. The most important use of hydrogen is fuel for transportation sector (cars, buses, planes, trains and other vehicles), space shuttles and rockets. Other uses of hydrogen are electricity energy for mobile (mobile phones, computers, etc.) and locations, out of the network respectively. (Fuel Cell Report to Congress, 2003: v-vii) The advantage of hydrogen energy is to be produced from all available energy sources. Developed countries continue their intensive researches about converting solar energy into hydrogen fuel and solving problems of storage and transportation of hydrogen. (Ider, 2003: 1)

Among the other renewable energy sources, hydrogen energy has attracted more attention because it has been able to be fuel and to transport through hydrogen technology. In world there are many methods such as pressure cylinders, liquid hydrogen storage, metal hydrides, carbon nanotubes, etc. that enable transportation and storage of hydrogen but none of these methods meet full criteria. One of the most important criteria is the security of hydrogen density (both weight and volume) used. The other important criterion is the cost of the system. At this point, Sodium Borohydrate can be a solution for the problem. The system which uses Sodyum Borohydrate has 20% more storage capacity than other systems and minimizes the risk of hydrogen exploitation. Moreover the reaction is controlled easily. In reaction half of the hydrogen comes from the hydride, and the remaining comes from water. Catalyst and sodium metaborate are reusable. (www.mam.gov.tr, Access Date: 19.04.2010)

In a direct sodium borohydrate fuel cell, there is produced electricity without an interim stage of hydrogen production. The basic principle of this production is the reaction with water and borax. Hydrogen production and storage units are used as fuel directly, without sodium borohydrate. Direct sodium borohydrate fuel cell has a great importance in civil (telephone, radio, small television, a hand cleaner, etc.) and military (local lighting (Varta, etc.), portable radio, telephone, electronic warfare equipment (radio receivers, etc.), staff, heating, unmanned vehicles, sensors, etc.) applications. (www.mam.gov.tr, Access Date: 19.04.2010)

The purpose of this study is international competition of Turkish Boron in the Energy Sector according to Michael Porter's Diamond Model. Turkey has approximately 72% of world boron reserves and boron is used in a wide scope from detergent to space industry. If Turkey evaluates her high potential, she will be one of most important countries who determine the costs of fuel in energy sector.

The article proceeds in the following manner. First, we briefly review the literature regarding the competitiveness of the energy sector according to Michael Porter's Diamond Model. Second, we give general information about boron and emphasize its importance for energy sector. Third we detail the factors of Diamond Model according to boron in energy sector. The final part of the article is conclusion.

LITERATURE REVIEW

In the most recent period, the structural tissue of the laissez-faire economy has evolved from product-focused to information-focused. This global change and transform process affects both the sub-structure and upper structure of the countries. The countries who have poor structural systems, in spite of having sufficient own physical resources may have less per capita gross national product and growth rate than the other countries who have inadequate own- resources but make significant investment to infrastructure. In business terms, this transformation trend increases pressure on genetic staff of businesses, customer, technology, product manufacturing processes, human resources, management styles, internal business climate and corporate culture of a business, etc. This transformation also makes compulsory the requirement of recoding the genetic code as a customer focused. Because these countries and businesses that have not competitive power at this market may not possible maintain their lives. Competitiveness of a business is an indicator of the ability of costumers that provides to prefer the products produced by enterprises persistently in the view of their substitutions. There are two critical factors that affect this capability. One of them is productivity and the other is growth (sustainability). While productivity has its train to increase general level of affiances and cost advantage, growth (sustainability) has it its train to capture the revenue opportunities and to enrich the customer value.

In 1990, Porter developed Diamond Model which analyzes international competitiveness of sectors in his book named 'National Competitive Advantage of Nations'. The model designed like a diamond defines four factors that affect the competitive advantage. These basic factors are factor conditions, firm strategy and rivalry structure, demand conditions and related and supporting industries. State affects four factors externally in the model. Diamond Model introduces a system where fundamental variables are taken in consideration all at once, not one by one. In other words, all factors placed on a corner of the diamond and affect each other. Therefore system gains a dynamic structure (Eraslan et al., 2006: 53-54).

There are two studies which analyze competitiveness of the Turkish energy sector by using Michael Porter's Diamond Model in the literature. The first of these studies is Hınç's study wherein the electricity sector is analyzed (www.emo.org.tr, Access Date: 19.04.2010) and second study analyzes the energy sector of the province of Tekirdag (www.tekirdag.gov.tr, Access Date: 19.04.2010). Denizli is selected as a pilot province in cluster studies for energy sector in Turkey (www.tumgazeteler.com, Access Date: 19.04.2010). Furthermore, energy is utilized as a production factor in competitiveness analyses of some sectors by Diamond Model (Eraslan and Et al., 2006, 2007, 2008). In these studies, energy is a cost factor which affects the competitiveness of the sector in these analyses, because it has a strategic importance. Özdemir and Yüksel (2006) who set out set out energy as a input factor investigate impact of forward and backward links of the sector on economy in their studies.

Developments, policies, problems and evaluations of energy sector in Turkey are discussed in Symposiums and regional forums. Some of those are Chamber Turkey Energy Symposium, the National Clean Energy Symposium, New and Renewable Energy Sources Symposium, Renewable Energy Resources Wind Energy Symposium and the Hatay region, Eastern Black Sea, Southeast Anatolia and the Aegean forums, etc. These studies help having an idea about the level of competitiveness of energy sector indirectly. Utlu and Hepbaşlı (2004) make comparative sector analysis of availability of energy for industry, transport and residential sectors between the years 1999 and 2000 and they explain the importance of planning to increase efficiency of energy. In recent years, academic studies related to energy sector in Turkey emphasize on renewable energy sources.

State Planning Organization (SPO), one of the most important institutions in Turkey, has identified the current situation and has developed energy policies in Five Year Development Plan since 1963. SPO is published Mining of Ad-Hoc Committee Report in the Eighth Five-Year Development Plan for 2001-2005 period. Furthermore, Ninth Five-Year Development Plan (2009-2013), pays attention to boron technology for high value added products. There are found vast academic works about technical improvements for production, increasing productivity and developed technologies on boron in universities.

Moreover, mining, chemistry and engineering departments fully treat this subject at their thesis. Boren Institute, TUBITAK Mineral Research and Exploration, General Directorate of Eti Mine General Organization have had many projects on boron.

BORON

As a fundamental input of manufacturing sectors mines play an effective role in the development of economy. Turkey has an important competitive advantage according to other countries in terms of reserves, quality and variety of minerals, production capacity, ease of processing and low cost of production. (Buluttekin, 2008:2-3)

Boron does not exist in nature as a free element. It is bounded by oxygen in nature and found in soil, rocks and water. The most important minerals with their different B_2O_3 contents are tincal, colemanit and ulexite. Although boron minerals can be used in some industries as concentrates, refined boron products and special boron chemicals products are very widely used in many various industries. (Eti Mine Annual Report, 2005: 12) Tincal, a raw material of Sodium Boron Hydride has great importance in the energy sector. Tincal is from Sodium class of boron with 26% B_2O_3 content and its reserves locate at Kırka in Turkey. Beside tincal, colemanite, a raw material of Boric acid is from calcium class of boron with between 28-30% B_2O_3 content. Colemanit reserves locate at Emet, Kestelek and Bigadiç at Turkey. Boric acid is a reactor of Sodium Meta borate which provides using hydrogen as energy in fuel cells and is a production by reaction of colemanit and sulfuric acid. Colemanit and Tincal are mined through open – cost mine method and are processed in factories. Boron products can substitute each other because the main use of them is their B_2O_3 content (Eti Mine Annual Report, 2005:14). But in Turkey, as a single producer of boron Eti Mine doesn't allow competition between its exploitation managements.

General Directorate of Eti Mine General Organization is all state-owned capital and responsible for production, processing and marketing of Turkey's boron products. Eti Mine Works consists of Bandırma, Kırka, Emet, Bigadiç, Kestelek Boron Works (www.etimaden.gov.tr, Access Date: 19.04.2010).

Within its oligopoly structure, world boron market differs greatly other raw materials markets. Major boron producers of the world are US Borax Inc. in USA and Eti Mine in Turkey. Supply, demand and prices are determined according to their short-medium and long expectations. After 1978, nationalization is made in Turkey to provide a pricing discipline and to prevent developing small-scale mining companies disappear among American companies which have strong capitals. After nationalization, (Akdaş, 2004: 40) Eti Mine has increased its market share rate from 11% to 38%.

75% of world boron consumption concentrates in glass, ceramics, and agriculture, textile and detergent industries. Boron is there for the use of mobile telephony and radio batteries, solar energy and hydrogen storage, solar cells as a fuel cells, etc. in the energy sector. Boron minerals can be used in land and sea transportation vehicles (cars, trucks, locomotives, ships) as a fuel. Boron has been researched to obtain engine fuel or to be a engine fuel since the 1950s (Karakoç and Eraslan, www.maden.gov.tr, p.155, Access Date: 19.04.2010). Karakoç and Eraslan explain an engine system introduced by Graham Cowan that uses boron as fuel in detail. Cowan argues that boron is more efficient even more than hydrogen.

A.B.D is one of the most advanced countries who make R&D research to develop boron technology. On the other hand, Europe Space Agency is another institution who researches boron fuels. Boron Research Institute and TUBITAK MAM Chemistry and Environment Institute maintain their R & D activities corporately about production of high valued boron compounds and sodium borohydrate synthesis and production. They complete a common Project named 'direct sodium borohydrate fuel cell production'. They have a pilot establishment for production of sodium borohydrate. Inger et.al (2009) gives detailed information about this project in their study.

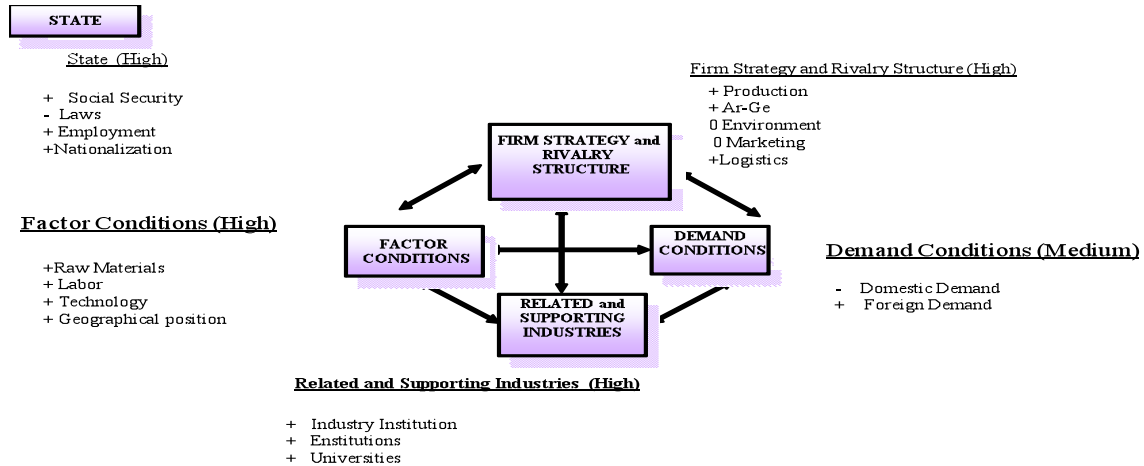
METHODOLOGY OF RESEARCH

The aim of the study is to identify the international competitive position of Turkish Boron in Energy Sector by using the Diamond Model of Michael Porter. In this study primary and secondary research methods are used. Datas are collected from various sources such as sector reports, catalogs, records, related internet resources of related organizations, scientific articles etc. Besides sector data, interview method was applied to department managers of Eti Mine and related university members as a secondary data. Questions are orientated Eti Mine's general structure and policies, personal thoughts and opinions of, interviewees and the academic researches in light of literature review. The factors of Michael Porter's Diamond Model (factor conditions, demand condition, related and supporting industries, and firm strategy and rivalry structure and state) are divided sub factors and analyzed their international competitiveness power within rating with low (-), normal (0), and high (+).

INTERNATIONAL COMPETITIVENESS ANALYSIS OF TURKISH BORON IN ENERGY SECTOR BY MICHAEL PORTER'S DIAMOND MODEL

Data gathered through primary and secondary data collection methods are evaluated according to rating mentioned above, and then sub factors are located in Figure 1 as seen below.

Figure 1: International Competitiveness Analysis of Boron in Energy Sector According to Michael Porter's Diamond Model



Reference: Michael E. Porter. (2008) *On Competition* Harvard Business School Publishing Corporation, U.S.A, p.5.

- **Factor Conditions:** These factors are raw materials, unskilled and skilled labor, technology, geographic location. These factors have strong impacts on competitiveness of boron in energy sector. Which country has a big amount of reserves, advanced technology, wide transportation network and skilled labor, this country has become leader in sector and has right to determine prices.
- **Raw Materials:** Turkey has approximately 72% of world boron reserves. The most important boron reserves are collected in four main regions in the world: (Buluttekin, 2008: 12):
 - Located in the south of the U.S. State of California "Mojave Desert"
 - South America the "Andean Belt"
 - Turkey is also where the "South-Central Asian Orogenic Belt"
 - Eastern Russia

In 2009, world production of boron has approximately decreased 19% and has reached 3.29 million tones. Turkey has 41% share in first place in the world while North America (USA) 29%, South America (Chile, Argentina, Peru and Bolivia), 18% and Asia (Russia, China and India) 12% share is followed Turkey. (Eti Mine Annual Report, 2009: 6)

The B_2O_3 identifies the quality of Boron. According to the annual report of Rio Tinto companies in America, B_2O_3 content of Tincal is 25%. In Peru, this rate is 25-27%, in China and Kazakhstan it is 8-10%, Russian average B_2O_3 rate is 9-12% (Annual Report of Eti Mine, 2009: 4). In Kırka, Tincal B_2O_3 rate is 26%, in Emet B_2O_3 rate is between 28% - 30%, in Bigadiç B_2O_3 rate of colemanite and ulexite are 29%-31% and in Keselek B_2O_3 rate of Colemanite is 29% (TMMOB, 2003:3).

- **Labor:** Turkey has an advantage over other countries in terms of skilled and unskilled labor (engineer, chemist, miner, metallurgy or workers etc.). If we look at OSYS (University Entrance Examination) 2009 Statistics, identified quota in mining, chemistry, metallurgy and their engineering departments has 3.3% all in undergraduate degree programs while this rate is 1% for 2 years programme. In accordance with the quota, interest shown in these programmes at the undergraduate level is 91% and 83% in 2 years programme. Unlike the identified quotas are low, the interest in these areas is high. At Eti Mine Organization, 76% are workers. 88% of workers are high school and over educated. It can be said that there is enough potential and skilled workforce at Eti Mine.
 - **Technology:** Eti Mine has evaluated domestic sources for technology, particularly for equipment and machines. In conclusion, technology is sufficient.
 - **Geographic Location:** Turkey has already a strategic point in terms of closeness of Europe markets. The foundation and closeness of raw material has created an advantage. In addition, establishing factories near residential area and having a basic structure of distribution network have created cost advantages in the international area. For example, in the U.S.A. and China, reserves are located very wide area but not clustered in a region. Mining and processing are expensive. Most of the minerals B₂O₃ rate is below than 12% rate.
 - **Company Strategy and Competitive Structure:** Company growth strategy has placed on competition, enterprise development and the environment axis. By developing advanced technology, they aim to establish boron oriented industrialization in Turkey. In this direction, they change production line from concentrated to refined products. They take patent at their first technological product Calcine Tincal. In addition, they make investment continuously to get bigger the production capacity. In the field of advanced research and development aim to compete with America while following the cost leadership strategy. To be fast and just in time to access international markets, they give importance to their logistics and overseas trade agencies. To prevent pollution of production conducted business activity, the ISO 14001 Environmental Management System (EMS) is created a system for environmental activities. Since 2005, they have been market share leadership. They have to determine prices but crises affect them in a negative way. Also there is some speculations about that they don't reliable to environment standards. This speculation also affects the demand of boron. (www.etimaden.gov.tr, Access Date: 19.04.2010)
 - **Demand Conditions:** The more demanding the customers in an economy, there is a pressure facing firms to constantly improve their competitiveness via innovative products, through high quality, etc.
 - **Domestic Demand:** Domestic demand is low in Turkey. Eti Mine meets all domestic demand but domestic demand has only 3% share in entire income. In 2009, domestic demand was approximately 16 million U.S. \$ revenue. It is decreasing according to previous year within 2008 global crisis.
 - **Foreign Demand:** Eti Mine is responsible for approximately 37% of world demand. RT Borax with 28% rate follows Turkey and other manufacturers are responsible for 35% in world demand. In 2009, Eti Mine imports U.S. \$ 435 million worth of boron to world. Although foreign sales of Eti Mine in 2009 have increased 126 % according to year 2002, with the global crisis, foreign sales showed a decrease 26% of the total product basis according to year 2008. Since 2003, China glass industry in the Far East countries, primarily increase the demand of boron and consumption rate. (Eti Mine 2009 Annual Report)
- On the other hand the sodium borohydrate in the U.S.A. where its consumption is about 2000 tons / year. Consumption rate has reached two-digit numbers. Prices of Sodium borohydrate is between 50-75 U.S. \$ / kg (powder) and 40-55 U.S. \$ / kg (12% NaBH₄ solution). It used for paper industry to whiten except energy sector. (Başoğlu, 2003 TMMOB Boron Report)
- Sodium borohydrate in the world, some brand names are sold with patented: Borol (Paper Industry), Sws (pharmaceutical industry), Venmet (waste water), Venpure (purification of organic chemicals), Venvat, Venhit (Cotton transactions).
- **Related and Supportive Industrial Organizations:** Industries, universities and research institutes exchange information and promote a continuous exchange of ideas and innovations.
 - **Industrial Organizations:** Industry uses boron as a raw material in production in a wide spectrum. They allow institution to experience new products to see their performance. This application helps Eti Mine has developed new high technologic products.

- **Logistics:** Logistics has an important role in transportation of goods abroad. It has a basic and well structured land and sea transport network. Boron products are coming to Bandırma in trucks and are transferred by sea to the European market.
- **Research Institutes:** Boren Institute always aims that develop production processes and increase value of products and makes collaboration with TUBITAK MAM to give technical support to investment projects of Eti Mine.
- **Universities:** Universities not only supply qualified employment for the institution but also give support with academic studies.
- **State:** Government is acting as a catalyst and challenger to encourage raising company's performance, to support company financially and make laws. It has more powerful than other factor despite it affects system externally.
- **Employment:** A particular part of employees hired by central examination system.
- **Nationalization:** Boron in the world market differs from energy sector. Privatization may be a good strategy for energy sector but not boron sector because of having a pricing discipline.
- **Social Security:** Eti Mine is a state institution so all employees are guaranteed by state.
- **Laws:** Gaps in the legislation cause delay in investments of the institution and bureaucracy may slow down works.

RESULTS

Turkey has depended on other countries in terms of fossil fuels; but she has advantages over other countries in terms of renewable energy resources and geographical position. Nowadays, the world countries shift their attention to renewable resources especially to hydrogen energy which is the most clean and available to transportation. Researches on energy aim to find the best way to storage hydrogen. Sodium Borohydrate has found the best solution of this problem. Turkey has 72% of boron reserves. General Directorial of Eti Mine Organization is the single producer of boron in Turkey. This is a necessity because of the world boron market structure. In past Eti Mine only import concentrate minerals such that Colemanite, Tincal and Ulexit but USA is developed technology and get high income through selling rafine boron products. Therefore, sustainability of Turkey's competitiveness, Eti Mine has changed its strategies and to be a leader in both energy and boron sector increased investments on R&D activities. It is successful to have knowledge and know-how to product sodium borohydrate.

When boron in energy sector analyzed with Diamond Model of Michael Porter, it is seen that its international competitive level is high. But Eti Mine needs some improvements still especially in domestic consumption. The share of domestic demand in total income is %3. There should established industries which will use boron intensively to increase national demand. Also state should give special importance to automotive industry. Because when boron or hydrogen will start to use as a fuel, automotive sector will develop faster than other sectors. State should pay attention to not leave gaps in law, because the other countries makes problem waste of boron especially Europe, far from raw materials. Eti Mine should follow more environmental strategies and apply total quality management every department of the institution. To make better marketing strategy, Eti Mine diversifies its products and makes brand in boron and distribute its dealers in a wide area. Eti Mine has a brand, Calcine Tincal but it's the first product since the institution has existed in boron market. There is last problem is negative impact of crisis on demand of boron. The supported financial structure and foundation of institution may solve this problem. It can be done with give significant importance to R&D activities and should increase its share in capital.

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TECHNOLOGICAL SPECIALIZATION AND THE INTERNATIONAL COMPETITIVE POSITION OF THE EUROPEAN UNION'S ENTERPRISES

Alina Hyz

Technological Educational Institute of Epirus, Greece

ABSTRACT

The common market of factors of production in the European Union (EU) involves the free movement of labour factor, financial capital and innovation/technology. Technology as a separate factor of production in an integrating area is rarely incorporated into theoretical analysis. From a theoretical point of view, there are different relationships between various segments of the market of factors of production. Importance and strength of the relationship between them changes with each shift in the economic development of the EU member countries and deepening of integration processes. No doubt, however, that the central element becomes innovations / technologies, that lead to structural changes and local changes in integrating areas. Therefore, the purpose of this article is to assess the progress of the integration processes on the technology market in the EU and the identification of the relationship between this segment of the market of factors of production and its remaining segments.

The first part of the article presents the technology as a factor of production in an integrating area. Next we describe the influence of R&D on the region's competitiveness and we identify the main characteristics of the technology market in the European Union. The main aim of the next part of the paper is to indicate the role of international business in the creation and transfer of technology in the European Union. The analysis conducted in the paper is based on specialist literature and statistical data.

INTRODUCTION

With the economic opening up of Eastern Europe and the advances of Asian newly industrializing countries in the world market global competition has intensified - especially in the field of labor-intensive products and medium intensive technologies. For European Union's countries and regions facing intensified import competition and the relocation of production in the context of foreign direct investment outflows it is therefore important to increasingly position themselves in advanced technology fields. Hence Research and Development (R&D) are increasingly important for growth and international competitiveness. It particularly enables the development of new products and process, the reduction of production costs and the improvement in the quality of production.

When regional differences in the European Union are discussed, the focus is often on economic differences. However, if the analysis is extended to research and technology factors, it becomes clear that the gap between strong and weak countries is even more pronounced in connection with research and technology than the economic gap. Furthermore, pronounced differences exist not only between the member states, as there are also major differences between regions within individual countries (European Commission, 1994; European Parliament, 1997).

TECHNOLOGY AS A FACTOR OF PRODUCTION IN AN INTEGRATING AREA

Technology as a factor of production in an integrating area was not the subject of comprehensive studies in the theory of integration. Technology understood in the broad sense includes not only the production technologies (product and process technologies), but also managerial knowledge, marketing skills, and other so-called intangible assets on the level of a company (Pavitt, 1999; Van Tho, 1993). Constant development and spread of technology is widely recognized as a key factor distinguishing modern and modernizing societies.

Technology can be transferred in the form of tangible assets such as new products and equipment; in the form of intangible assets such as patents and licenses and in an informal way, by exchanging information and knowledge (Howells, 1998). It can be transferred through various channels, which are divided, generally speaking, into public and private. In the first case, the transfer is carried out by public organizations: the governments of highly developed countries and international agencies. Technology is then the public good. Its transfer is a part of technical assistance and economic cooperation with developing countries. In the second case, the technology is transferred by private companies on commercial basis.

Creating a technology is subjected to the process of internationalization starting from the early '80s, what is expressed in the so-called R&D internationalization (Gerybadze, Reger, 1999). Traditionally, this process was characterized by a unilateral transfer of technology, i.e., ideas for new products and technological knowledge have been created by a dominating parent institution and copied in other peripheral locations. This process can be interpreted as learning from the outside or the exploitation of knowledge moving from the center to the periphery. In contrast, the new innovation process is characterised by: 1/. Multiple centers of knowledge in different geographic locations; 2/. A combination of learning through the transfer of knowledge from the parent company and the knowledge created in a given location; 3/. Technology transfer, both between different geographical locations and between organizational units. Developments in science and technology (see Note 1) have led to crystallizing of the polycentric structure of national research and innovation systems. In every important area of research there have developed two - three so-called "centers of excellence", which compete with each other and which rankings can change quickly.

RESEARCH AND DEVELOPMENT AS A FACTOR OF COMPETITIVENESS

Research and technological development or, more generally, the ability to innovate and produce new products and knowledge are important factors for competitiveness and hence for a economy's growth potential (O.E.C.D., 1996; European Commission 1997; Schmookler, 1966; Solow, 39/3; Kaldor, Mirlees, 1962; Gomulka, 1971). Since continual change is the feature of the market, on-going research and technological development and innovation are essential. Access to technological development and innovation is of crucial importance for a region's capacity to compete in a global market.

The post-war view of R&D policy was based on an implicit routinized model of innovation in an economy where the most important inputs were land, labor and capital. R&D and technological change itself were viewed as being simply supplement to these factors of production. This was also an economy of relative certainty and stability. The international competitive advantage was generally achieved through cost reduction resulting from large-scale mass production to exploit scale economies. The supplemental role of R&D in the post war economy was designed to reduce costs through process innovation and to generate incremental innovations. The routinized role of R&D was perhaps first articulated by Schumpeter who observed that, "Innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists who turn out what is required and make it work in predictable ways" (Schumpeter, 1942).

Companies in the weaker regions can no longer compete with procedures in the developing countries on wage costs. At the same time, they are subject to the pressure of competition from strong countries and regions with rapidly changing patterns of innovation and a faster and shorter life cycle for products. In order to compete on high-tech markets, the weaker regions must adjust to the demanding pace set by the prosperous regions in the Community in the area of product and process invention and innovation (note 2). R&D is needed for process innovations, which allow costs to be cut and hence markets to be widened - this could facilitate the exploitation of static and dynamic economies of scale (Audretsch, 1995; Scherer, 1992). R&D is also a requirement for product innovations, which allow firms to charge higher prices. Firms that are eager to recover R&D investment costs and to earn a Schumpeterian rent from innovation will try to ensure intellectual property rights, typically via patents. They will also massively invest into marketing in order to create preferences in favor of the novel products. R&D as well as marketing expenditures create market entry barriers because they largely represent sunk costs; newcomers will find it therefore difficult to successfully enter the market. Innovative firms thus can enjoy extra profits which partly will have to be shared with workers since trade unions in highly profitable industries will strongly lobby for wage rises. With continued product innovations the value-added by the firm will indeed rise continuously such that the wage bargaining process will result in rising real wage rates and higher real incomes in some sectors. This in turn will result in multiplier effects in the overall economy.

Launching product innovations will stimulate the growth of demand directly as was emphasized by Schumpeter who also stressed that entrepreneurship is the basis for long-term growth and economic cycles (Schumpeter, 1939; Korres, Lionaki, Polichronopoulos, 2001). Both for R&D devoted to product innovations and to process innovations it holds that unit R&D costs can be reduced if large output volumes are realized during a given innovation cycle. From this perspective the gradual increase of R&D expenditure - GNP ratios is bound to stimulate competitiveness. While competitiveness certainly has aspects of relative technological positing in world markets - typically emphasized in the literature - one should not overlook the global real income effect of process innovations (the price reduction effect). Product innovations create new markets and stimulate the expansion of firms as diffusion of novel products and processes follow a logistical expansion path. In the context of an open economy it is crucial that EU firms specialize in a way that is consistent with their respective comparative technological advantage (Dosi, 1988). This could be an actual comparative advantage of a potential advantage that relies on strong domestic market growth or R&D subsidies in the context of dynamic scale economies.

CHARACTERISTICS OF THE TECHNOLOGY MARKET IN THE EUROPEAN UNION

Market of knowledge is highly imperfect, and when left to its own, functions improperly. This results from the characterization of knowledge as a public good, which discourages the supply of knowledge and investment in research. Three ways are indicated to improve the functioning of the market of knowledge and commercial ideas (Pelkmans, 1997): 1/. Subsidizing the supply side by the government; 2/. The internalisation of the market of knowledge within enterprises by controlling the internal R&D activity and a systematic commercialization of results; 3/. The introduction of and respect of the protection of intellectual property rights. It should, however, be noted that these methods could also be the source of distortion in the market.

With regard to the subsidization of R&D sphere in the EU's support for R&D, activities can be made at the level of a member country and at EU level. (Basic data on the size, structure and effectiveness of expenditures on R&D are summarized in table 1 and graph 1). Functioning of multi-research programs funded by particular governments can lead to a reallocation of R&D activities among member states. Subsidizing R&D activities at EU level is, as it was evaluated, not more than 6% of expenditures of the member states on this purpose.

Table 1. Basic data on the size, structure and effectiveness of expenditures on R&D

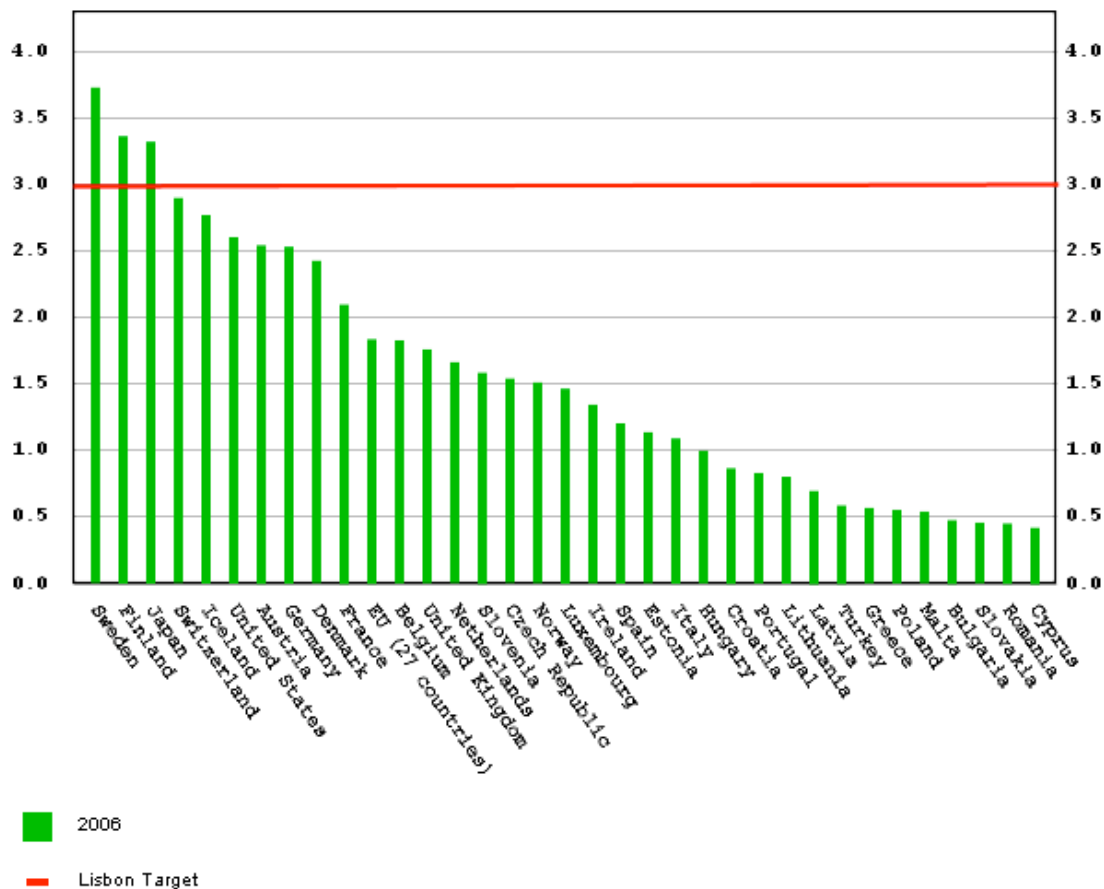
	1998	2001	2003	2005	2007
7.1 Research and development expenditure, by sectors of performance	1.79	1.86	1.86	1.82	1.85
7.1.1 % of GDP E.U. 27					
Research and Development expenditure, government sector	0,27	0,25	0,24	0,25	0,27
Share of research and Development Personnel (%of the labour force)	na	1,29	1,33	1,37	1,41
Total European patent applications (in 000's)	45,2	50,8	51.5	55.1	56.7

Source: Eurostat, European Commission

Graph 1.

Gross domestic expenditure on R&D (GERD)

Percentage of GDP



The internalisation of the market of knowledge within companies, as a method of correcting its deficiencies at the EU level, requires consideration of two aspects: ie the extent of internationalization (or to be more precise "europeanization") of companies and their participation in cooperation for networks in the scope of R&D. Internationalization of production and R&D means the distribution of these activities in different EU member states and a free movement of knowledge within the integrated areas but exclusion of single companies from this activity. This can result in uneven distribution of R&D function in the whole European Union and in concentration of more developed countries, attracting these types of activities.

Creating a network of cooperation between companies in the field of technology is also an indicator characterizing the technology market in the EU. This cooperation is made between institutions of non-profit type and in business sector. Institutions which are not focused on gaining profit (such as various types of colleges and universities) are traditionally open to international cooperation. Business sector, operating in conditions of competition, is seen as an unwillingly cooperating with strategic rivals, especially in the field of technology. Data on cooperation agreements between the companies - not just in the European Union - collected in the 90s deny, however, this quite common view (Cantwell, Janne, 1999; Archibugi, Michie, 1995). An increase in creating networks of cooperation between companies is observed, especially in the field of so-called high technologies (biotechnologies, new materials, information technologies). According to estimates, approximately 70% of all monitored agreements were attributed to these sectors (Archibugi, Michie, 1995).

Two main reasons for the increase in popularity of these agreements are indicated: 1/. Due to the nature of new technologies, which require a substantial „wealth” of knowledge for their mastering, the success of innovative activities of individual companies depends on the access to information about what is happening in a given field; 2/. In the case of emerging industries, particularly important is to gain and exchange information in order to reduce potential losses. Benefits of companies arising from this type of cooperation include distribution among partners considerable financial outlays necessary for the specific activity, which is the R&D, accelerating the return on investment incurred by a faster spread of the company's assets, risk

spread, increasing efficiency owing to the benefits of scale, scope and specialization, turning of competition into collaboration.

In relation to companies from the European Union, a strong growth in the number of cooperation networks between them, especially in the field of information technologies. These are networks created independently by companies, and such, which are sponsored by the European Union. The available data suggest, however, that it would be unjustifiable to make a conclusion about the dominance of intra-EU relationships in the different segments of EU technology market, or the existence of general patterns of behaviour attributed to the operation of the market. Data collected at the stage of finalizing the construction of the Single Market indicated that, European companies in a greater extent cooperated with partners from the U.S. than with European partners. Intra-European joint research projects accounted for 19% of all such operations, while Euro-American – 21%. This would indicate that there is a more global rather than regional approach to technology issues. It should also be remembered that intra-European cooperation was not only a result of the shifts in market forces and effects of market integration in the market of the factors of production, but also the effect of policy to support the research and technological development, carried out at EU level.

Technology Policy of the European Union

The technology policy's objective is to promote technological research and technological development as one of the key factors of the improvement of the competitiveness of the whole EU on the international markets. From the point of view of this analysis it is important to identify those elements of technology policy that affect the functioning of the market of the factors of production in the integrating area. This policy is based on the principle of subsidiarity. The Member States retain the freedom in the field of research and development, and at EU level, the attempts are made to coordinate and finance, with respect to these research areas which are of a supranational meaning. The technology policy of the European Union covers both support for basic research and diffusion of technology, as well as for the development of technological cooperation of various organizations and institutions, focused on the development of scientific research base for small and medium-sized companies. Realization of such formulated objectives corresponds to the need of the improvement in functioning of the market of knowledge within EU functioning of markets previously discussed. Crucial elements here include: 1/. Support for the basic research, 2/. Support for the spread of technology, 3/. Promotion of the technological cooperation. The technology policy of the European Union is realized in practice within long -lasting research framework programs (the so-called Framework Programs). These programs, define the scientific and technological objectives, priorities and proposed projects necessary for their implementation, together with financial resources and their distribution among particular leading research tasks.

Technological specialization and the international competitive position of the European Union

Indirect answer to the questions posed above can be sought in analysis and evaluation of technological specialization of the European Union and its international technological competitiveness. Evaluation of technological specialization of the EU, in the scope of the deepening of integration came out unfavourably against its competitors: the U.S. and Japan.

The technological specialization of so-called Triad (USA, Japan, EU) measured by the sum of absolute differences in shares of patented ideas (which are assigned to specific industries in the tested period of time) and by so called Herfindahl index - which is a measure of the concentration of patent patterns (sum of squares of the shares of individual industries in the total number of patented ideas from each country, multiplied by 100) - shows significant differences. Between 1992-2002 the U.S. and Japan have reached a much stronger shift towards a concentration of innovative activity, and as a result, a higher degree of technological specialization than the EC. At that time the European Union experienced a reduction of technological specialization, what proved not enough use of their potential to achieve scale benefits within R&D activity. It is assumed, that the lack of an innovative specialization still results from parallel competitive functioning of R&D programs in various countries. Studies show that there is still a considerable scope for improving the effectiveness of European Union technology policy coordination between national policies in the field of R&D and policy at EU level.

Assessment of the position of the EU in trade in technologically advanced products come out more favourably, although they are geographically diverse and concern a slightly different period than that examined above. In the years 1999-2005 the trade in high-tech products was characterised by a deficit. Japan is the top net exporter, through with a negative trend (42beuro in 1999, 31beuro in 2005). US has a negative balance in 2002 and 2003 (-20beuro); its balance was positive in 1999 and become positive again in 2004 and 2005. China had negative balance till 2004 (-2beuro), but in 2005 it becomes positive. EU25 has the highest negative balance over the period 1999-2005 (-28beuro in 2005) (European Commission, 2007)

Other studies conducted for the years 1999-2005 are based on the amount of exports/imports of high-tech products per capita. This provides the magnitude of high-tech trade in relation to the population of the country considered. (Table 2 and 3).

Table 2. Exports (euro/cap)

	1999	2000	2001	2002	2003	2004	2005
EUR25	307	401	414	371	356	389	437
JAPAN	771	1096	872	796	743	796	791
CHINA	21	34	42	55	73	99	132
USA	725	843	894	683	575	694	747

Source: European Commission, 2007

Table 3. Imports (euro/cap)

	1999	2000	2001	2002	2003	2004	2005
EU25	400	536	507	458	437	474	499
JAPAN	439	644	563	520	486	516	543
CHINA	24	39	50	64	80	101	126
USA	658	932	811	749	645	666	719

Source: European Commission, 2007

The data show that exports of high-tech per capita (i.e. the intensity of high-tech exports) are higher in Japan than in US, although the world market shares of Japan's exports are consistently much lower than those of US. In EU25, exports of high-tech products per capita are much lower than those of Japan, despite the fact that EU25 has higher exports world market shares. China's figures are very small compared to the other countries: its intensity in high-tech trading is still very low and it will take many years to catch up with the other countries. The statistical data show that the picture of EU and Japan for imports across years is very similar (around 500 – 550 euro/cap in 2005). However, such intensity is highest in the US (US population and enterprises are eager of high-tech products, above 700 euro/cap). China, due to its large population, has very small intensity (about 120 euro/cap).

These results allow only in an indirect way to answer the questions previously raised about the legitimacy and effectiveness of technology policy of the EU. Critically evaluating the technological specialization of the Union one should pay attention to the need for a better coordination of efforts in the scope of R&D, non-spreading and non-replication of R&D programs at the national level. By contrast, the observed improvement of the competitive position of EU in relation to its main rivals was a joint effect of activated mechanisms and conducted technology policy. One should agree with the view that the establishment and proper functioning of this market is, so far, the most important incentive for private innovations. Technology policy corrects imperfections of the European market of knowledge which are being revealed.

CREATION AND TRANSFER OF TECHNOLOGY IN THE EUROPEAN UNION. THE ROLE OF INTERNATIONAL BUSINESS

The European Union is an area where the largest transnational corporations operate. Change in behaviour of these companies in the process of deepening European integration were the subject of research, whereas, an attempt to define the specific processes of internationalization of technological activity of transnational corporations in the EU faces difficulties due to lack of research focusing on this aspect of the problem.

From the empirical research conducted in a wider context than the integration and focusing on a selected group of 21 largest transnational corporations it can be concluded that European companies are characterized by some identity in internationalization strategies of research - development activity (Gerybadze, Reger, 1999). These strategies depend on the size of the country of origin, specificity of industry and features of enterprise itself. We can distinguish companies of a global range that come from small, but highly developed

European countries. The size of their national R&D base is limited, so the transnational companies which come from these countries are obliged to actively participate in foreign researches. However, many transnational companies from large European countries, characterized by significant technological base (Germany, France, United Kingdom), still shows a tendency to focus a substantial part of their research in country of origin. This concerns in particular the engineering industry and the construction of means of transport and electrical equipment. By contrast, the strategies of companies of chemical and pharmaceutical industry are different, since they are characterized by a substantial share of foreign R&D in their activities. For comparison, transnational corporations which came from the U.S. based on their own, and a strong national research base and were less internationalized in R&D than European companies. Major Japan corporations were characterized by the low degree of internationalization of R&D. By contrast, studies conducted on a sample of 244 transnational corporations operating in technologically intensive fields indicate that European companies were characterized by the greatest share of R&D activity located abroad, in total capital expenditures on R&D in comparison with their major competitors that are American and Japanese companies (Roberts, 1999). This share was shaped on the level of 30%, but the European companies had a tendency to focus on intra-European investments.

Deepening of European integration, that is passing through its successive stages pushed researchers to formulate hypotheses that with the advancement of integration processes there are changes made in specialization of innovative activity of transnational corporations in an economically integrated region. In J. Cantwell model (Cantwell, 1987) on the cumulative causation in the scope of specialization of innovative activity in integrated area, two types of production undertaken by transnational companies are distinguished: 1/. Intensive research production usually associated with local research and development works; 2/. Assembly production type that does not require support of local research and development.

Production of research intensive components final assembly operations can be separated by location but integrated through intra-European market, as a result of the strategic decisions of transnational companies. Regularity is that the research intensive production is drawn in to places of strong innovation activity. In countries where local firms are strong in the innovation sector operations of transnational companies are becoming an additional incentive for the development of this sector. They induce increase in the share of research intensive activity in the whole of local production; and this in turn, is associated with a higher rate of productivity growth and -by increasing local competitiveness – with a higher rate of production growth. A kind of virtuous circle is being activated.

Conversely, is in the case when local companies in a given sector are technologically backward. If a transnational company invests there in production, this will be the type of an assembly production, and innovation and advanced components will be imported. Local activities in R&D field may be then in danger. Highly competitive transnational companies may strengthen their position by increasing the transfer of funds from local sales to the parent company, intended to further develop their R&D. Local companies lack the resources and are forced to cut their expenses on this purpose. It moves down the function of technical progress in countries where companies are relatively weak in important innovative industries. Mechanism of a vicious circle is activated. In countries that are not quite able to compete effectively with TNCs, the activity of the latter can stop this "vicious circle" through indirect influence on the function of technical progress. Then the local innovations take the form of skills development, improvement of manufacturing processes, better technical equipment of the production process, a new quality of technical control, etc.

Today's global economy reveals a tendency for geographical concentration of innovative activity in areas that bring investors the benefits of technological agglomeration. These are benefits arising from conducting innovative business activity in geographic proximity to other entities involved in such activity. Knowledge, unless it is codified, does not spread in an automatic and simple way. Its diffusion is made easiest through direct personal contacts. Then the concentration of innovative activity in a certain geographical area, in which other innovators are present, strengthens and facilitates innovation processes. In this way the so-called. Clusters, i.e., different activities accumulated in the same geographical area, including innovation, which attract each other.

CONCLUSIONS

Integration in the scope of market of production factors is not yet a completed process in the European Union and proceeds unequally. The European Union technology market is just emerging. Because of the specificity of this market, that is its encoded imperfection which results from character of knowledge as a public good, the integration efforts in this field will not be able to bring quick results. On the one hand, the EU's Common Technology Policy is trying to support the emergence of a more integrated technology market, on the other -

the internationalization of creation and technology made beyond the borders of EU countries and integration groups, as a result of the activities of transnational corporations, can constitute a serious barrier in realizing the common technology market.

It is necessary to create now in all regions of EU a basis for future growth and development. Short-term solutions to a number of problems are not enough, as they jeopardize future growth. As a result of the changes in economic activity, which have meant that knowledge has become the crucial factor for economic growth, policies must also be adjusted to keep pace with those changes. The increasing importance of R&D require regional, national and union's R&D policies to be adapted to the new structures and requirements. How new structures and policies-are to be formulated is still open to debate and this paper can be seen as an introduction to that debate.

APPENDIX

Note 1. In this paper the term "science" is understood to cover the creation, discovery, examination, classification, reorganization and dissemination of knowledge on physical, biological or social subjects. "Technology" is science application know-how. As such, it belongs to a large group of like activities, which embrace the creation and use of artifacts, crafts and items of knowledge as well as various forms of social organizations. Technology does not only signify the application of scientific results, but any purposive treatment, methods, working method and skill in the exploitation of scientific knowledge together with the products of so doing. The significance of the "research" process in the materialization of the innovations nowadays is uncontested. According to the rules of present day research statistics, a distinction must be made between fundamental research, applied research and experimental development. The three subsequent differentiated concepts are often combined under the heading "Research and Development". See: Frascati Manual, OECD 1992; Proposed Standard Practice, for Surveys of Research and Experimental Development, Fifth Revision, Paris 1993.

Note 2. Invention can be defined as the discovery of new solutions and new ideas for acquiring new knowledge. Innovation is when an invention is for the first time implemented and put into production or a new idea is for the first time put into practice.

Note 3. Technology policy can be defined as comprising the sum of all state measures promoting new or existing technologies for economic application in broad sense. Although Ergas concluded that "precise boundaries of technology policy are often difficult to identify", there are district technology policies, which have been pursued in the European Union. The legal basis for supranational research and technology policy in the European Community is laid down in specific articles of the ECSC Treaty (steel and coal union), the EAEC Treaty (nuclear research) and the European Community Treaty, the Single European Act and the Treaty of Maastricht on European Union.

(4) The main objectives of the common R&D policy are to provide impulses for welfare-increasing progress in important technological fields and to stimulate the diffusion of new technologies. The idea is to develop coordinated national policies as well as supranational research activities, where the concrete aims are: 1/. strengthening the scientific and technological bases of Community industry and encouraging it to become more competitive at the international level, 2/. eliminating unwarranted duplication of national R&D programs, 3/. improving the efficiency of projects by task and cost sharing or use of pooling resources, 4/. helping to reduce unemployment in the EU through new technologies and product innovations.

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COMPETITIVE STRATEGIES AND FIRM PERFORMANCE

A literature Survey

I. Hakki Eraslan, Izzet Kılınç, Yunus Emre Taşgit
Düzce University, Turkey

ABSTRACT

Competitive strategies and Firm performance are between the key topics in strategic management literature. In this respect, examining the relationship between the concepts is quite important. Firm performance is a prominent means to gain competitive advantage and a multidimensional construct which includes financial performance, business performance, and organizational effectiveness. Competitive strategies are concerned with obtaining sustainable competitive advantage, gaining a position and making strategic decisions on actions. The main object of this paper is to research the relationship between competitive strategies and firm performance. Achieving to this, the concept of firm performance, competitive strategies and competitive advantage are determined; then looked at the relationship between competitive strategies and firm performance. According to the result of the literature surveys, there is an important relationship between competitive strategies and firm performance.

Keywords: *Strategy, Competitive Strategies, Firm Performance*

INTRODUCTION

Globalization, new economy, the changing competitive conditions in markets, the changing characteristics of trade relations have formed a new dynamic and complex business environment. Achieving superior performance relative to competitors becomes more and more difficult in this dynamic environment (Haarla, 2003; Zyl, 2006).

According to Banker et al., (2006) both academicians and non-academicians underline firm performance as a prominent means to gain competitive advantage in today's dynamic business environment. In this respect, the accurate and appropriate definition of performance becomes quite important in order to discuss the relationship between competitive strategies and firm performance. There are a number of criteria that measure firm performance which are used for various research purposes. However, the measurement of performance has always been the subject of debate, and objective measurement of performance is of greater importance rather than the subjective measures based on manager perceptions (Beal, 2000).

Surviving in this complex and uncertain environment, competitive strategy is another important concept. Competitive strategy is defined as the formulas which the company develops about gaining a position different from its competitors in order to form a value for the customers (Harrison and John 2004) and as strategic decisions on the actions that a company do so as to obtain a sustainable competitive advantage in the industry where it is (Morschetta and et al., 2006).

Qualitative research method was used in this study, by taking the aims and content of the study into consideration. The study was designed to examine the relationship between competitive strategies and firm performance through a comprehensive literature survey. First stage, related to the research topic published and non-published, theoretical and empirical secondary data were determined. Later, data were obtained through library research and online sources. Next stage, obtained data were categorized primarily according to the topics, methods and findings, and analyzed. Finally, in the light of the analyze, research paper was prepared. The theoretical framework of the study was designed on focusing on relationship between competitive strategies and firm performance. Before analyzing this issue, the study firstly determines the concept of firm performance and competitive strategies; then examines the relationship between competitive strategies and firm performance.

LITRETATURE SURVEY

The importance of competitive strategy in both large and small firms has been continuously emphasized in the strategic management literature since almost three decades (David, 2001; Wheelen and Hunger, 2002). Competitive strategies help to firms to outline the fundamental steps they need to follow in order to realize their organizational objectives. Accordingly, business strategy is regarded as a significant variable for business performance (Gibcus and Kemp, 2003).

It is expected that there should be a relationship between firm performance and different types of business strategies. Along with extensive research on the business strategy formulation, there has been also existence literature that focus on the relationship between strategy and the firm performance, and much of the research on performance measurement has been conducted in the field of organization theory and strategic management (Murphy et al., 1996). Beard and Dess (1981) demonstrate the relative importance of corporate-level strategy and business level strategy in the determination of firm profit performance.

Firm Performance Concept

The concept of firm performance is a key element in the strategic management literature. However, the measurement of performance has always been the subject of debate, and objective measurement of performance is of greater importance rather than the subjective measures based on manager perceptions (Beal, 2000). In this respect, the accurate and appropriate definition of firm performance becomes quite important in order to discuss the relationship between competitive strategies and firm performance. Porter (1980) define good performance as the above-average rate of return sustained over a period of years. Other researchers define the firm performance as a prominent means to gain competitive advantage (Banker et al., 2006) and a multidimensional construct which includes financial performance, business performance, and organizational effectiveness (Venkatraman and Ramanujam, 1986).

There are many performance indicators, which have been employed and determined in the literature for a long time. For instance, according to Venkatraman and Ramanujam (1986) the firm performance is a multidimensional construct. The authors have defined three levels of firm performance, which are financial performance, business performance, and organizational effectiveness. As Parker (2000) outlines in his study, accounting-based standards such as Return on Assets (ROA), return on sales (ROS), and Return on Equity (ROE) can be tools to measure the performance of the firm in terms of financial success. Nevertheless, Gray (1997) draws attention to market-related items such as market share, growth, diversification, and product development as business performance measures. Moreover, a study employed by Lee (1987), indicates that composite measures of financial profitability such as return on equity (ROE), return on assets (ROA), return on investment (ROI), return on sales (ROS) would be a relatively comprehensive criterion to measure the performance of SMEs in different industries.

Competitive Strategy and Competitive Advantage Concepts

Attempts to describe, explain, and categorize competitive strategies that firms use has been a favorite challenge of strategy researchers. Three popular approaches have drawn a great amount of attention in strategic management literature. Miles and Slow's adaptive strategies (1978), Abell's business definition framework (1980), and Porter (1980)'s generic competitive strategies (Coulter, 2005). According to Porter (1980) Competitive strategies are concerned with obtaining sustainable competitive advantage and gaining a favorably position. There are three competitive strategies: (called also as generic strategies) cost leadership, differentiation and focus. The cost leadership strategy is an integrated set of actions taken to produce goods or services with features that are acceptable to customer at the lowest cost, relative to that of competitors. The differantiation strategy is an integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them. The focus strategy is an integrated set of actions taken to produce goods or services that serve the needs of a particular competitive segment (Hitt et al, 2005: 115–124). Miles and Slow (1978) explain the concept as action used by firms to adapt to their uncertain competitive environments. According to the approach, four strategic posture are possible: prospector, defender, analyzer and reactor. Mintzberg (1988) has developed an alternative typology of competitive strategies that he felt better reflected the increasing complexity of the competitive environment. He proposed six possible competitive strategies: differentiation by 1) price, 2)marketing image, 3) product desing, 4) product quality and 5) product support (Coulter, 2005).

There are two main views that shape the competitive advantage phenomenon in the strategic management literature; namely, Resource-Based View (RBV), and The Position School (also referred as Industrial Organization view) which are two leading views used to explain firm performance through the competitive advantage paradigm (Barney, 1991). The Position School argues that firm's strategies are determined in accordance with the external environment, whereas RBV suggests that a firm's strategy is shaped by the unique resources and capabilities possessed (internal environment) (Haarla, 2003).

According to RBV, the unique assets and resources of the firm can lead the firm to competitive advantage (Conner, 1991; Barney, 1991; Peteraf, 1993), and firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991: 101). Barney (1991) provides some criteria for resources that pave the way for competitive advantage. According to Barney (1991), for a resource to provide competitive advantage, the resource should meet some criteria, which include value (it should be valuable or it should create value), rarity (it should be rare), inimitability (it should be difficult to duplicate) and non-substitutability. The competitive advantage of the firm is highly associated with its internal resources such as financial, physical, organizational, technological, and intangible and human resources that form organizational capabilities (Almor and Hashai, 2004; Steinle and Schiele, 2008). Although, the view gained support from many academicians in the strategic management field, it drew criticism, as well. RBV is perceived as tautological, or self-verifying.

The positioning approach, on the other hand, which is an extension of Harvard Business School approach, is perceived as the contrasting view of RBV. This approach highlights the environment as the key determinant of performance (McKiernan, 1997). Porter (1980) emphasizes that the importance of the firm's environment in competitive strategy, and states that firms that possess a defensible position in the long-run, will be able to out-perform its competitors. According to Porter, competitive advantage is regarded as the profitable and sustainable position of the firm, which is adopted against the forces of industry competition, which are namely; supplier bargaining power, the threat of substitute goods and/or services, the threat of new competitors, customer bargaining power, and the intensity of internal rivalry (Porter, 1985). Positioning is constituted through adopting one of competitive strategies (differentiation, low cost leadership, focus differentiation, or focus low cost leadership). Also, there are a number of tools that are used by firms that adopt positioning approach in shaping the business strategy, such as business definition models, value chain analysis, the five forces industry analysis model, situation-cum-competitor analysis framework, strategic group mapping, brand maps, value/cost driver analysis and industry life cycle analysis.

THE RELATIONSHIP BETWEEN COMPETITIVE STRATEGIES AND FIRM PERFORMANCE

According to Porter, firms with a clear strategy outpace firms without a strategy. This argument constitutes the base of his competitive strategies. The literature on strategy defines three essential conditions for the firm success attaining a competitive position or series of competitive positions that lead to superior and sustainable financial performance (Porter, 1991). The first condition for the success is the definition of clear goals and functional policies of the firm that define the position of the firm in the market. The second condition is the consistency between the organization's strengths and weaknesses and the external opportunities and threats in the industry. The third condition is the discovery of the firm's distinctive competences.

Hrebiniak and Snow (1980) suggest that functional areas such as general management, production, and marketing can become distinctive competences. Results of their show significant relationships among business level strategies, certain distinctive competences, and performance. Some of the studies embracing Porter's (1980, 1985) typology of strategy contends that viable business units must seek either a low cost or a differentiation strategy to be successful (Dess and Davis, 1984; Hambrick, 1981, 1982; Hawes and Crittendon, 1984). Dess and Davis (1984) categorize firms from paints and allied products on the basis of their intended strategies. Total firm sales, sales growth, and average after tax return on total sales are used as performance measure. Findings support that firms adopting at least one of the generic strategies have superior performance than firms that do not. According to results, the overall low cost leader firms have the highest average return on assets while firms adopting a focus strategy achieve the highest performance on sales growth.

Karnani (1984) derives that a superior cost or differentiation position leads to a larger market share, which in turn leads to higher profitability. Similarly, looking firm performance through the profitability perspective, Jones and Butler (1988) have studied the relative advantages of a cost leadership strategy versus a differentiation strategy. The theory they developed demonstrates that both cost leadership and differentiation strategies must be combined when choosing a business strategy that help the organization outperform the others regarding the performance. White (1986) handles the strategy-organization-performance context within Porter's competitive strategies' typology. He concludes that business units that employ pure cost strategies achieve higher ROI when they have low autonomy, and the sales growth of pure differentiation strategies benefits from strong functional coordination for key functions under the responsibility of business unit manager. Conclusions of the research highlight that strategy-structure-performance paradigm is relevant for the business level in multi- business firms. The study of Banker et al. (2006) investigates the relationship between the strategic positioning of firms whose financial data is publicly available and the sustainability of their financial performance. Results reveal that firms employing a differentiation strategy are seen to be able to have sustainable financial performance and higher price-earnings multiple in the eyes of capital market participants.

Tehrani (2003) discusses the impact of five types of competitive strategies (product differentiation, low cost, marketing differentiation, focus product differentiation, and focus low cost) on preeminent performance among sixteen segments of high-tech industries in the US and EU. His findings indicate that the relationship between competitive strategy and performance depends on the geographies the firm operates in, since US firms that adopt product differentiation, low cost, and focus product differentiation had superior performance than others while in Europe only the low cost firms outperformed other firms.

The paper of Chandler and Hanks (1994) examines relationships between new venture performance, market attractiveness, and resource-based capabilities through analyzing 49 start-up manufacturing firms. Innovation, quality and cost leadership are included in the study as three competitive strategies. Findings show that performance of these manufacturing firms increase in case resource capabilities enable adopting a cost-leadership strategy.

The study of David et al. (2002) analysis the performance contingency effect between product competitive strategy and organization design using a sample of 194 firms from 20 industries. Results of the study prove that there is a contingency relationship among product competitive strategies, purchasing design characteristics, and firm's financial performance (return on assets). McGee et al. (1995) discuss the competitive strategy-performance relationship through the new venture context. They reveal that if firms adopt marketing differentiation, positive relationship between marketing cooperative arrangements and average sales performance is explored.

Barth (2003) discusses the impact of the fit between competitive advantage and organization of a firm over the performance of the firms that compete in mature or new industries.

Porter (1980) indicates that in new industries strategic errors can be masked by the rapid growth; therefore, it can be argued that the fit between strategy and organizational structure is not as significant as it is in mature industries because in mature industries the fit is necessary in order to survive. The researcher adopts managerial skills as the mediating variable in his study. Sales growth is used as the main performance measure and the competitive strategy is measured by focusing on cost and differentiation strategy proposed by Porter (1980). According to results, strong support was achieved only for the second hypothesis, which states, the degree of managerial skills is related to the performance of the firm especially for manufacturing firms.

The field study of Dess et al. (1997) seeks to demonstrate the relationship among entrepreneurial strategy making, strategy, environment and performance. They regress the research which supports that marketing differentiation strategy in a heterogeneous environment is significant and positive for the profitability/ ROI, and for company performance measures. Moreover, support for higher performance (for sales growth and overall company performance) in uncertain environment through innovative differentiation strategy is found, and overall high company performance is achieved in a heterogeneous environment through innovative differentiation strategy.

Pelham (2000) studies the manufacturing firms in USA in the context of Porter's strategy typology and uses market/ sales effectiveness and profitability as performance measures. Basic parameters for market/ sales effectiveness are relative product quality, new product success, and customer retention rate, sales level, sales growth rate, share of target market, and for profitability were return on equity, gross profit margin, and return

on investment. Results reveal that for small firms there is a strong correlation between performance and the combination of market orientation and growth/ differentiation strategy, and market orientation has the strongest positive relationship with measures of performance compared to strategy selection, firms size or industry characteristics.

The study of Ariyawardana (2003) employs the resource-based and strategy-based views of the competitive advantage paradigm in order to explain the performance of value-added tea producers in Sri Lanka. Results of the study highlight that Sri Lankan value-added tea producers should strengthen their sources of competitive advantage in order to achieve higher firm performance and challenge the globalization threat the tea industry faces.

In their study, Spanos and Lioukas (2001) examines manufacturing firms including food and beverages, wood and furniture products, chemicals, metal products, machinery, electric equipment and appliances. Performance is measured through profitability and market performance. Results of the study indicate that firm competitive strategy has a strong positive relationship with firms success in terms of market performance.

Yamin et al (1999) examine the relationships among competitive strategy, competitive advantage, and organizational performance in their research. Research, based on data obtained from 214 Australian manufacturers; employs ROI, Market Share, ROA, and Performance Ratios as measures of performance, and findings reveal that high and medium focus companies achieve higher financial performance than low focus companies do. Moreover, medium level cost leader companies exhibit higher level of performance compared to low level cost leader companies.

Porter asserts that competitive strategies are mutually exclusive, nevertheless, there are many studies which contradict to this assumption (Mosakowski, 1993; Panayides, 2003; Wright et al., 1991; Bush and Sinclair, 1992). For instance, the study of Mosakowski (1993) contradicts Porter's (1985) assertion that adopting solely the focus strategy does not generate above normal returns. In his study, Mosakowski (1993) questions the relationship between the focus and differentiation strategies and economic performance of entrepreneurial firms by adopting a resource-based perspective. Net-income (profit after tax) and sales revenues are selected as performance measures and data of the study is collected from 86 entrepreneurial software firms. Findings of the study support that firms adopting the vertical markets focus strategy, the customer-needs focus strategy, the customer service differentiation strategy, or the R&D differentiation strategy outperform firms those that do not.

Similarly, Panayides (2003) suggests in his study that ship management companies should adopt a combination of generic strategies rather than adopting solely one of them. The study argues out the competitive strategy-performance relationship in terms of ship management. Results of the study point out that companies that employ competitive strategies achieve higher performance, and economies of scale, differentiation, market focus and competitor analysis are factors that bring on higher performance for ship management companies. Likewise, the work of Wright et al. (1991) denotes that the adoption of both low cost and differentiation strategy can lead to highest performance. The study investigates the performance level of firms adopting different business strategies through employing return on investment (ROI) and growth in relative market share as performance variables. Six different business groups are analyzed in the study; businesses competing successfully with the low cost strategy and competing unsuccessfully with low cost strategy, those competing successfully with the differentiation strategy and those competing unsuccessfully with differentiation strategy, competing successfully with low cost and differentiation strategies and competing unsuccessfully with these strategies. Results of the study point out three types of strategic profiles: unsuccessful low cost businesses with the lowest performance, unsuccessful differentiated businesses with the second lowest performance, and successful businesses that adopt both low cost and differentiation strategies with the highest performance.

Study of Bush and Sinclair (1992), conducting a field research in hardwood lumber industry, supports that overall cost leadership is not satisfactory in a mature industry. Whereas, the study reveals that successful companies are those that combine cost leadership with differentiation.

A recent study of Kaya et al. (2004) examines the relationship among advanced manufacturing technologies (AMT), competitive strategies, and firm performance. The study, which is conducted in manufacturing firms, located in Gaziantep, reveals that AMT usage and adoption of Differentiation Strategy are both positively and significantly influential on firm performance. Another significant finding is that Implementation of a

dual strategy (combination of cost leadership and differentiation) has a positive impact on performance especially when AMTs usage is higher.

The findings of the other researches, which examine the relationship between Competitive Strategy and Firm Performance, existing in strategic management literature, are summarized in Table 1.

Tablo1: Findings related to Competitive Strategy and Firm Performance

Contributors	The topics that Studies Address	Major Findings
Ngyuen et al, 1990	<ul style="list-style-type: none"> Diversification strategy and its effects on performance 	<ul style="list-style-type: none"> Degree of technologically related diversification is positively associated with firm performance
Gomez- Mejia (1992)	<ul style="list-style-type: none"> The extent to which a match between compensation and diversification strategies affects firm performances 	<ul style="list-style-type: none"> Empirical support is not found only for the second hypothesis.
Zahra and Covin, 1993	<ul style="list-style-type: none"> The search identifies how business strategy, technology policy, and firm performance interrelate at the bivariate and multivariate levels. 	<ul style="list-style-type: none"> Hypothesis is supported. Business strategy moderates the relationship between technology policy and firm performance.
Guthrie and Datta, 1998	<ul style="list-style-type: none"> The study examines the relationships among corporate strategy, executive selection and firm performance. 	<ul style="list-style-type: none"> Results indicate significant support for improved performance among non-diversified firms in case of selecting CEOs with lower levels of firm-specific experience
Richard, 2000	<ul style="list-style-type: none"> The study examines the relationships among cultural (racial) diversity, business strategy, and firm performance. 	<ul style="list-style-type: none"> Positive results for the interaction of racial diversity and growth strategy are found in terms of productivity, return on equity, and market performance. Results demonstrate that cultural diversity contributes to firm competitive advantage.
Alpkan et al. , 2003	<ul style="list-style-type: none"> The paper aims to investigate the market-related antecedents and performance impacts of key manufacturing strategies, namely cost reduction, quality improvement, and flexibility, and also the direct effects of market-related factors on the performance of manufacturing firms. 	<ul style="list-style-type: none"> The positive relationships among market-related factors, manufacturing strategies and performance are partly confirmed in this study on Turkish manufacturing firms in the Gebze Region/ No relationship is found among cost reduction as well as flexibility strategies and firm performance. The existence of the direct positive effects of the market-related variables of competitive power and market attractiveness on the firm performance, independent from manufacturing strategies and the other market-related variables, is found.
Wisner, 2003	<ul style="list-style-type: none"> The study searches whether positive linkages between supplier management strategy, customer relationship strategy, supply chain management strategy, and firm performance. 	<ul style="list-style-type: none"> Findings support that supplier management and customer relationship strategies are correlated and together impact supply chain management. Immediate and second-tier supply chain management strategies all impact firm performance either directly or indirectly.
Geiger et al., 2006	<ul style="list-style-type: none"> The impact of industry structure on the relationship between strategy/structure fit and performance is examined. 	<ul style="list-style-type: none"> Firms with strategy/Structure fit have lower performance/ Firms with fit that operated in more concentrated industries, performed better than firms without fit.

Source: Adopted from Eraslan, I. H. (2008), The effects of competitive strategies on firm performance: A study in Turkish textile and apparel industry considering the mediating role of value chain activities, The PhD dissertation, Boğaziçi University, pp. 54-55.

CONCLUSION

According to the result of the study, there is an important the relationship between competitive strategies and firm performance. To obtain and improve firm performance and get sustainable competitive advantage, determining firm's competitive strategies are one of the most important issues for managers. Because, the formulation and implementation of competitive business strategies that will improve performance are one of the efficient methods to attain firm's sustainable competitive advantage. Also, the impact of competitive strategies on firm performance is a major issue of concern to the policy makers and has been playing important role for improving firm performance for a long time.

For competitive strategies have positive impact on sustainable competitive advantage and firm performance, there are some important stages. Firstly, the goals, functional policies and the position of the firm in the market are defined clearly. Secondly, the consistency between the organization's strengths and weaknesses and the external opportunities and threats in the industry is analyzed. Finally, the firm's distinctive competences are discovered.

Consequently, it can be said that both The Positioning approach and Resource-Based View (RBV) have an important affect on firm performance. However, firms prefer generally the cost leadership strategy and differentiation strategy in their actions.

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THE ART OF PUBLISHING IN SCHOLARLY JOURNALS

Refik Culpan
Canakkale Onsekiz Mart University, Turkey

ABSTRACT

This paper discusses important issues and processes of publishing in scholarly journals in a systematic manner. After defines some guidelines, it summarizes necessary skills, knowledge, and experiences needed for preparing quality research papers for publishing at refereed journals. It includes useful suggestions for potential authors in preparation, development, and submission of their research works scholarly journals.

INTRODUCTION

Many academicians and researchers at various academic institutions are required to publish their research outcomes in scholarly refereed journals. However, this publication process often involves frustrating endeavor, especially for beginners, because of journals' tiresome and stringent requirements. This paper addresses an important issue of publishing in scholarly journals by defining some common processes and guidelines, and necessary skills, knowledge, experiences in handling such publications in a successful manner. In doing so, it provides a road map for researchers for preparing their high quality research manuscripts and publishing them in referred journals by describing common norms and procedures, and by giving specific examples. It concludes with suggestions for potential authors to prepare, develop and position their works successfully in refereed journals.

PUBLICATIONS IN REFEREED JOURNALS

Recently increasing number of higher educational institutions requires their faculty members conduct research and present their research in academic conferences and furthermore publish them in scholarly journals. They do that for a couple of reasons. First and foremost, they usually required by a higher central institution. For example, in Turkey, Higher Education Board has develop certain standards and guidelines for admission and promotion of all academic personnel, which every university both public and private universities in the country should follow. The basic notion behind such requirements is that it would build and maintain academic rigor and quality at universities so education quality will be kept and improved. Second, increasingly competitive educational market, universities in order to gain and sustain their competitive edge they require their faculty to be active in conducting research and even more bringing some research funds to the university. As a result, faculty members at universities have been under constant pressure to do research and share their findings by participating in scientific/academic conferences and seminars and eventually publishing them in scholarly journals (Bnece & Oppeheim, 2004). For instance, "publish or perish" is often heard cliché at some western universities. Therefore, academicians have been forced or encouraged to conduct research and communicate their research findings through printed or electronic media. Summer (2001) claims that a primary mission of institutions of higher learning is the generation and dissemination of knowledge.

TYPES OF RESEARCH PAPERS AND THEIR REQUIREMENTS

My descriptions and analysis focus on social sciences but many of my observations and assessments could apply to other disciplines. In social sciences, particularly in management discipline, there are primarily three type papers that academicians can produce. Below each one of them will be described briefly then essential components of a high quality research reports will be outlined.

- Theory Development and Conceptual Papers: Some papers may include theory and conceptual model developmental. Although these are challenging task, scholars with original ideas could challenge existing theories and then offer their new theories and models. To do so, potential researchers should be in command of current theories and be able to criticize the extant theories and

develop new ones or modified versions of old theories. These papers provide new insights in understanding of certain concepts, processes, and relationships.

- Empirical Research Papers: Many researchers collect primary data (e.g., surveys) or use secondary data (e.g., already recorded and published statistics) to test some hypotheses that they develop. Researchers need to pay attention to reliability and validity of their research instruments and the hypotheses to be drawn from extant literature. Such papers report their findings and discuss implications of those findings.
- Case Study and Analysis: Another type of papers could analyze specific cases and report their findings. They provide in-depth analysis of a particular business event, industry, or company (Eisenhardt, 1989). They are considered qualitative studies and increasing number of journals now welcome such papers. Even there are specific journals publishing only case studies.

ESSENTIAL COMPONENTS OF A HIGH QUALITY MANUSCRIPT

In this section, I will identify the essential components of a high quality paper. Table 1 summarizes these essential components. Let me go through each one of them and describe these ingredients. Although the following items are defined in reference to an empirical research paper, they, with some modifications, can equally apply other types of papers (e.g., conceptual and case studies). The quality of manuscript determines its chance of publication in reputable journals. Summer (2001) pointed out “the low acceptance rates at the leading research journals in marketing, typically in the single digits to low teens, suggests the need to increase the quality of the research manuscripts produced.” Toward this end, I will define the fundamental characteristics of a quality paper below.

- 1) Issue(s) studied: The author(s) should clearly define what the issue or issues are to be examined in the current study. At the outset, readers would like to know what the core issue, problem, or subject that the paper is addressing. This should come in the first or second paragraph of the paper and be explicitly expressed. It should spell out the objective, scope, and implications of the subject undertaken for the study.
- 2) The significance of the topic: The author also should clearly spell out why this particular study is important and define the reason of its impact. If the subject has already been
- 3) The contribution of the current study to the literature: This aspect is closely related with the previous one, the significance of the topic. More specifically the paper should attempt to answer one or more of these questions: Is it offering something new or additional? Is it testing previous theories models? Is it developing a new perspective or model? Is it nullifying an existing theory or model?
- 4) Review of extant literature: A thorough review of extant literature is a must. Authors must go through all the relevant previous worthwhile writings on his/her subject and point out their support of the current study or shortcomings of those previous publications. Authors should have such literature review at least one third of the paper at the beginning. Thanks to the current digital technology and wide spread of use of the Internet, many databases containing many book and journal publications are easily accessible nowadays. Google Scholar, for example, is a free source and available worldwide.
- 5) Methodology / Approach used: Another significant part of a quality paper is the methodology section where the authors should clearly explain their data collection and analyses. For a theoretical paper, first showing the shortcomings of existing theories and modes and then offer consistent and sound conceptual explanations filling a void. For an empirical research that involves choosing the research instrument (previously used questionnaire or newly developed questionnaire, population and sample selection, subjects and their characteristics, administration of survey, methods of analyses of collected data. For a case, a thorough information gathering about the important case event including its history, actors, milestones, and problems and accomplishments.
- 6) Findings of the study and conclusions: For a theoretical paper, it would be construction of new theory or conceptual framework showing essential components and their relationships and probably development of some research propositions based on the new theory or model which could be tested with subsequent empirical studies. For empirical research, it would include listing of research findings usually presented in tables and displaying hypothesis acceptance or rejections. For case

studies, the current state of the case with failure or success or special situation emerged related with the case.

- 7) Discussion of limitations of the current study and suggestions for future research avenues: It would be a good idea to include a section in which the authors discuss the both theoretical and practical implications of his/her study's findings. It is also recommended for authors to modestly accept the limitations of their studies and how future studies can be improved by taking into account the shortcomings of the current study.

Table 1. Essential Components of a High-Quality Manuscript

Issue(s) studied	<ul style="list-style-type: none"> • Defining the issue studied in the paper • Refer to other studies have made similar research
Significance	<ul style="list-style-type: none"> • Describe increasing importance placed on the subject • Explaining why studying this particular subject is important
Contributions	<ul style="list-style-type: none"> • Explain if there is a void in studying the subject; if so, how the current study fills it • Explain the limitations of previous studies and how this study overcomes them
Literature Review	<ul style="list-style-type: none"> • Review of relevant previous studies • Ensure current literature covered (most recent ones) • Link the previous studies to your study
Method/Approach	<ul style="list-style-type: none"> • Explain the methodology used • Justify the appropriateness of methodology
Findings/Conclusion	<ul style="list-style-type: none"> • Summarize the findings of the research • List conclusions drawn from the research
Limitations/Future research	<ul style="list-style-type: none"> • Describe the limitations of the current study • Make recommendations for future research that the current research not addressed or how it can be expanded

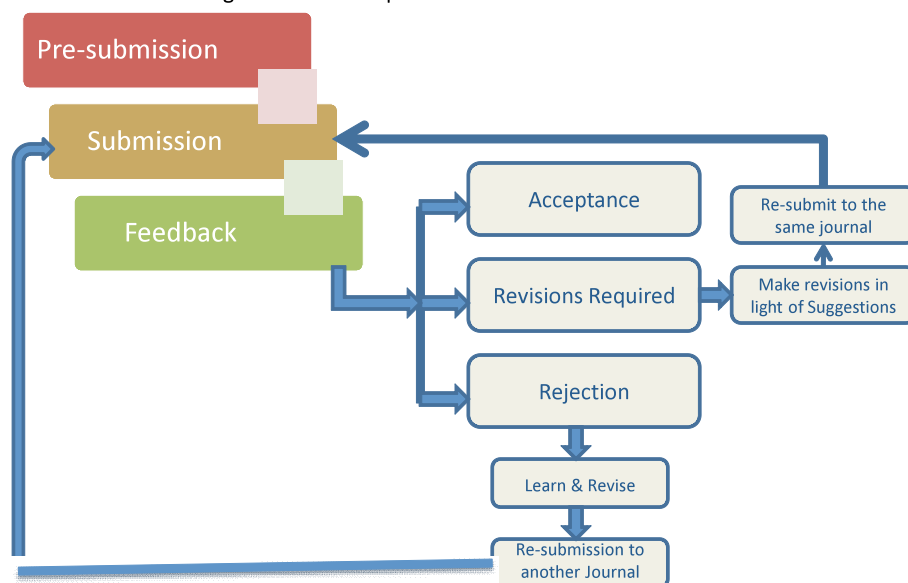
MANUSCRIPT SUBMISSION AND REVIEW PROCESS

Once the research paper is ready for journal submission, the author still needs to do some ground work in selecting an appropriate journal for his/her manuscript and go through certain process, which can be summarized below as depicted in Figure 1.

- 1) Pre-Submission Search and Choose of Appropriate Journal: It is advisable for potential authors do some ground work even before finishing their work in terms of target journals. Authors can scan some potential journals which have already published similar work with that of the authors.
- 2) Submission Guidelines: It is necessary to follow guidelines of target journal and prepare the manuscript accordingly. Often manuscripts are either rejected because the authors do not follow the guidelines of the journal submitted or ended up with a long review process to make necessary changes later. Every journal has its own unique requirements in terms of style and content conditions (Laband & Piette 1994).
- 3) Review Process: Follow up: A review of a submission may take a long time (three to six months) depending on the popularity of journal and reviewers' diligence. After all most reviewers do not usually get any compensation for their services, except professional service and satisfaction. Usually it involves at least double blind reviews. If the review process takes longer than expected, the authors may send kind reminder to the editor of the journal to speed up the process (Varadajan, 1996).
- 4) Reviewers' Feedback:
 - a. Acceptance of manuscripts: Signing and sending copy right agreement; minor editing
 - b. Meeting the Revision Requests: Paying attention to the points of recommendations and addressing the concerns of reviewers.
 - c. Rejected Papers (a new cycle): Benefiting the feedbacks of the reviewers and repositioning the enhanced paper

- 5) Resubmission: The authors ending up with major revision requirements have an option either go along with those suggestions and make the necessary revisions or if they disagree with reviewers' suggestions look for another journal to submit their work. Assuming they go for revision, the authors need to modify their paper in light of reviewers' criticisms so that they are able to improve their paper and resubmit it. In re-submission, it important for authors to explain and justify what changes are made and what is kept in its original form (Markland, 1996). This is re-learning process provide that the rejecting reviewers provide valuable insights. Of course, a re-submission does not been acceptance of the manuscript but the paper would be more likely accepted after all necessary and appropriate modifications.

Figure 1. Manuscript Submission and Review Process



RECOMMENDATIONS FOR PROSPECTIVE AUTHORS

Following the discussion above, I have presented a set of guidelines for researchers aspiring to do scholarly research in management field. Being aware of the process and preparing their paper systematically would help a lot their chances of acceptance. In addition to above guidelines, I would like to emphasize another important aspect that is networking. It is extremely important to establish some network among your colleagues who are working in the same research question and have already published articles on the same subject. Those researchers could help you in two ways. First, they could provide important suggestions in formulation and development of your research project and paper. If you find such an expert, you can send your paper for his/her reaction prior to submitting a journal. Second, they might join you for research collaboration. Working with someone who has research experience and reputation is always beneficial. The question is how to build such contacts and develop a network. To do that, it is recommended that you attend academic conferences and socialize with scholars who are experts in your area of research. Always exchange business cards and keep those business cards in a database for a future reference. Another way is to write emails to such experts to solicit their cooperation or opinions on the important research questions. You would be amazed that most of them would respond to you and make valuable suggestions.

CONCLUSION

In this paper, I have tried to define the essential components of a high quality paper and outline the process of submitting scholarly papers to refereed journals within a conceptual framework. In addition, I have included some recommendations for prospective authors in developing their research project and paper. I hope that authors would find these suggestions useful.

Publishing in scholarly journals could be a frustrating process for authors. However, being aware of the whole publishing process and paying attention to some basic ground rules would increase the chances of acceptance of scholarly papers. By doing so, I hope the researchers/scholars would be productive and satisfied rather being perished.

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ICT INVESTMENTS AND FIRM PRODUCTIVITY: A CASE STUDY IN INDUSTRIAL SITES IN TURKEY

**Nurdan Colakoğlu
Serkan Dilek
Fatma Atigan
Beykent University, Turkey**

ABSTRACT:

The purpose of this study is to search the contribution of Information Communication Technology (ICT) investments for productivity of small and medium sized industry firms. To this end we conducted a survey, which investigates this contribution, to the administrators of small and medium sized manufacturing firms in two industrial sites in Beylikdüzü. Firms use ICT for managing their business processes, communication with suppliers and customers, production processes. There are two different results about the effects of ICT investments to the firm productivity. First empirical results did not find any significant relationship between them and build the infrastructure of ICT productivity paradox which is defined by Solow's aphorism "You can see computers everywhere but in productivity statistics". Second, empirical results found new evidences that show the positive contribution of ICT investments to productivity statistics. The efficiency of ICT investments depend on organizational factors such as new strategies, new business processes, new organizational structures. The results of this study will be a foundation for the next researches about the contribution of ICT investments for firm productivity in Turkey.

Keywords: Information Technology; New Economy; Firm's Productivity; ICT Investments

INTRODUCTION

Today, productivity is an important strategic objective for firm management and subject for micro economic theory. By the revolution of Information Communication Technology (ICT), developed countries changed all of their economic infrastructure. This change can be called as ICT revolution. Although ICT evolution seems to cause productivity increase, empirical studies could not find evidences that support this hypothesis until the second half of 1990's. So many scholars searched why the effects of computers could not be seen in productivity statistics and finally many empirical studies found evidences that view the increase in Total Factor Productivity (TFP) after 1995 (Brynjolffson, 1996; Colechia, 2001; Bosworth and Triplett, 2003; Gretton, 2004; Baldwin, 2004; Hempel, 2002; Maliranta and Rouvinen, 2004; Atrostic and Nguyen, 2002; Falk, 2001; Gretton and others, 2004; Mateucci and others, 2004).

This paper aims to measure the contribution of ICT to firm productivity in Turkey. Therefore we conducted survey on enterprises that are located on industrial sites. We evaluated and interpreted them by using SPSS 16.00 statistical package programme.

COMPUTER AGE

There are three waves in socio-economic development process. Agricultural revolution is the first one, Industrial revolution is the second wave, finally last wave is information revolution (Emiroğlu,2007,334; Kocacık, 2003,1). Approximately twenty thousand years ago some hunter and gatherer groups came together, then started agricultural activities. Generally it is accepted that agricultural revolution formed basis for human civilization. The invention and use of steam engines were a milestone that changes agricultural society to industrial society. The production had been done in houses or farms in agricultural society, but after industrial revolution, production was started to be done in factories (Erkan,1998;4). Because of increasing returns to scale, factorial production and fordist methods like assembly line provided an increase in productivity (Leijonhufvud,1989).

During Second World War US Army used ENIAC and Mark1, which were the first computer, to calculate ballistic fire tables and hack German codes. Although they were very huge machines, their calculating capacity was very limited (Flamm,1988;29). After the invention of transistors, the capacity of computers has been increased. Gordon Moore, who was co-founder of chip producer Intel, told that the transistor *density* on integrated circuits would double every two years (Aslan,2005;48). Empirical studies that were done after 1965, confirmed Moore (Özgüler,2003). The development in Computer industry caused computer age. Computer age is characterized by the ability of individuals to obtain information easily, and to have instant access to knowledge that would have been difficult or impossible to get previously. Eventually, ICT—computers, computerized machinery, fiber optics, communication satellites, Internet, and other ICT tools—became a significant part of the today's economy. Microcomputers were developed, so many industries were greatly changed by ICT (Dura and Atik,2002; Kutlu and Taban,2007; Dilek and others,2009). Because of this evolution, the rules of economy changed.

PRODUCTIVITY

Productivity measures are key factors of economic performance and there is strong interest in comparing them internationally. Generally economists and policy makers quantify firms productivity by two methods which are labor productivity and Multifactor productivity. Labor productivity is the ratio of output to the labor productivity. Multifactor productivity is the ratio of output to the input of both labor and capital (Lipsev and Carlaw,2004;1119).

Although today's computers are smaller than ENIAC, their functions and transaction capacities are higher. So it is estimated that firms which use ICT, will work with higher productivity. Empirical studies belong to 1960-1980 era found limited data about the correlation between firm productivity and usage of ICT. From 1948 to 1973, multi-factor productivity increased 1.9 percent per year in the U.S., and labour productivity grew at the rate of 2.9 percent; after 1973, these productivity growth rates were 0.2 percent and 1.1 percent (Triplett,1999;310). According to Schrage (1997) firms are wasting billions of dollars by believing the big lie of Information Age, but they don't try to solve structural problems. Generally empirical studies could not find significant relationship between ICT investments and productivity, so Solow said his famous aphorism "you can see computers everywhere but in statistics ..." (Solow,1987; Pilat,2004). This aphorism is called as Solow Paradox in literature. In the second part of 1990's, scholars such as Bresnahan, Brynjolfsson searched about Solow Paradox and asked why contributions of ICT on productivity could not be seen in statistics. After Brynjolfsson's (1996) study, many scholars tried to explain why the effects of computers can not be seen in statistics (Colecchia,2001; Bosworth and Triplett,2003; Gretton, 2004; Baldwin, 2004; Hempel, 2002; Maliranta and Rouvinen,2004; Atrostic and Nguyen,2002; Falk,2001; Gretton and others,2004; Mateucci and others,2004).

There are five main reasons that explain Solow Paradox.

1-) Traditional productivity metrics are inadequate for measuring ICT contributions on firm productivity, because the reason of ICT investments are not only reducing costs. Also managers want to improve quality, increase product variety, speed up responsiveness, enhance customer service. However these benefits are intangible and largely ignored by traditional productivity metrics (Brynjolfsson,1996;380). For example; Automated Teller Machines (ATM) are providing convenience in financial services, but they are only counted as an improvement in the quality of financial services (Pilat,2004;44). The other example is internet retailing firms that can offer convenient access to a larger selection of products than can brick-and-mortar retailers (Brynjolfsson and others,2003;1581). Shortly, According to scholars such as Brynjolfsson (1996;2000), Bresnahan and others (1999), statistics may not find this relation without calculating the increase in good quality that is realized by computers. Griliches (1994) told that if consumers were aware of increase on good quality, they would be ready to pay more. Therefore firms which invested on ICT will get competitive advantage in especially in F.I.R.E (finance, insurance, real estate) service sector. The reason of post-1973 slowdown on productivity is service sector. It is observed that productivity in service industries grew more slowly than productivity in manufacturing industries after the late 1960s. Therefore services sector acted as a brake on US productivity growth (Bosworth and Triplett,2003;1).

2-) A second reason for the difficulty in observing ICT's impact on productivity is time. Benefits of ICT took a considerable time to emerge. In other words the results of ICT investments can be seen after a time lag. It is seen that key technologies like electricity, diffused slowly. Even in the period between 1890-1913 (Electrical Age), slowdown in industrial and aggregate productivity growth was observed in Britain and US. But the

horsepower capacity of all electric motors installed in manufacturing establishment in country is less than five percent of factory mechanical drive (David,1990;356). Adjustment of firms to new technologies takes a long time. Firms have to change their organisational arrangements, upgrade the workforce and invent effective business processes to benefit from new technologies. Also ICT raises productivity with the help of Networks. But building networks, that are sufficiently large to have an effect on the economy, takes a long time. ICT diffused very rapidly in many economies over the 1990's and recent empirical studies typically find a larger impact of ICT on economic performance than studies that were done with data for the 1970's or 1980's (Pilat,2004;44).

3-) The empirical studies, that were based on relatively small samples of firms, drawn from private sources. They are not reliable enough also not representative because the data were poor quality. Recent studies that were based on large samples of data and covering several industries were more likely to find an impact of ICT on firm productivity than earlier studies (Pilat,2004;44).

4-) The firms, that have introduced innovations and new technologies in the past, will reap the potential benefits of ICT (Maliranta and Rouvinen,2004;606). They will perform better than other firms because of several reasons. Firstly managers are likely to have learned from past mistakes. They are aware of possible reactions of their employees and traditional customers. In other words they have more experience about the optimal speed of innovation of their firm. Secondly innovative firms know to implement innovations. Generally, complementary changes of organizational structures and processes are necessary for efficient introduction of ICT. They can train and motivate their employees more successfully. Thirdly, innovative firms have higher share of employees that accept an intensive use of ICT. Finally innovative firms, which have gained "innovative reputation", will adapt new customers to innovations easier than other firms (Hempell, 2002;7).

5-) Firms have to substantial complementary investments in learning, organizational change, training employees. So the payoff in terms of measured output may be long delayed, also firms, that don't invest on these items, will not profit from ICT investments (Basu and others, 2003;4). ICT have great contributions on recordkeeping, remembering, simple calculating, comparing and similar tasks. Computer decisionmaking is a substitution of human decisionmaking on clerical (similar routine) work (Bresnahan and others, 1999;6). Another complementary investment is decentralization of decisions. Today decentralization is important, because it allows quick and well informed reactions, also takes into local, specific conditions. Therefore firms can get competitive advantage against their competitors (Grenan and Guellec, 1998;314).

Computers can effect productivity in two ways. First, They may be used directly as inputs to the production process, as a specific form of capital. For instance in today's economy producers generally use computers in processes such as production, shipping, maintaining a database of customers etc directly. Second they may be used in organizing business processes. When computers are linked to networks, standard business processes such as accounting, order taking, inventory control can be made more effectively (Atrostic ve Nguyen, 2002;4).

In Turkey many surveys, that search about the contribution of ICT investments for firm productivity, were done (Turunç,2005; Altınöz,2008; Dilek and others,2009; Sayılır and others,2007). Most of these studies show how ICT investments enhance labor and multi factor productivity. As a result there is a common belief that computers are useful tools which increase labor productivity.

METHOD

We collected necessary data by conducting survey to executives of manufacturing firms that are located in two industrial sites which are located in Istanbul. Items in this survey were prepared by the help of previous studies that want to measure the contribution of ICT to firm productivity (Turunç,2005; Altınöz,2008; Dilek and others, 2009; Sayılır and others, 2007). In other words our study is the follower of these previous studies. *Population and Sample:* Although we tried to reach all of the firms in these industrial sites, most of the firms did not want to participate our survey. Therefore we reached 189 executives of firms. 167 survey came back correctly. Our population is 530 firms which are active in Pirinççiler and Bakırçılar industrial sites in Beylikduzu. In other words survey is conducted nearly one third of the total firms in these industrial firms. The results are evaluated with SPSS 16.00 Statistical Package Programme. As a result of the reliability tests, Cronbach Alfa coefficient is %65. According to Nakip (2006;146) survey is reliable enough to study on it.

The survey has two parts. First part is about demographic and general questions. Second part investigates the opinions and thoughts about the contribution of ICT to a firm. Five Likert Scale is used in second part. Our scales are

- I strictly disagree=1
- I disagree=2
- I have no idea=3
- I agree=4
- I strictly agree=5

FINDINGS

At first we obtained results about the demographic structure from the survey. As we mentioned, the first part of the survey is about demographic characteristics such as sex, age, education level of participants and general questions about the firm and economic situation. 134 (%80,2) of the executives, who participate to survey, are male while only 33 (%19,8) of the participants are female. This is not a surprising result, because survey is conducted on industrial sites. Generally females do not prefer to work or they are not preferred by employer.

Table 1. Sex of The Executives

	Frequency	Percent
Male	134	% 80,2
Female	33	%19,8
Total	167	% 100,0

The education levels of the participants according to their sex is given by Table 2. It is seen that most of the participants (%60,5) have at least bachelor degree. Only %29,3 of them are graduated from Lycee and %10,2 of them are graduated from Primary or Secondary School. So we can say that persons, who graduated from Universities, generally are more succesful than others. Also females have higher education level than males. %63,6 of the females and %59,7 of the males have at least bachelor degree. This is an expected result, because women have to work hard in business world to get higher position. Women who graduated from only primary or secondary school have no chance to get high position in business world (there is no executive woman who graduated from primary or secondary school).

Table 2. Education Level According to Their Sex

Education Level	General		Female		Male	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Primary-Secondary	17	10,2	0	0	17	12,7
Lycee	49	29,3	12	36,4	37	27,6
Bachelor or more	101	60,5	21	63,6	80	59,7
Total	167	100	33	100	134	100

The ages of the participants are given in Table 3. Most of the participants (%41,9) are in the 30-39 years group. %24,6 of them are younger than 30 years and %22,2 of them are between 40-49 years. It is seen that % 88,7 of the executives are younger than 50 years old. We can say that after 50 years old, executives generally leave their position to young employees.

Table3: Distribution According To Their Age

Age	Frequency	Percent
Less than 30	41	24,6
30-39	70	41,9

40-49	37	22,2
50-59	15	9,0
More than 60	4	2,4
Total	167	100,0

The question “Which amount of firm’s ICT capacity is used by employees” is asked and the results of this question is shared with Table 4. According to 57 executives (%34,1 of whole), employees are using %41-60 of firm’s ICT capacity. It is nearly average number. This means that if barriers are removed employees can use ICT more effectively. 35 executives said that their employees used less than %40 capacity of firm’s ICT infrastructure while 75 executives said that their employees used more than %60 capacity of firm’s ICT infrastructure. So %44,9 of employees are using ICT effectively and %21 of them are using ICT inefficiently.

Table 4. ICT Capacity Usage Ratio of Employees

Capacity Usage Ratio (%)	Frequency	Percent
0-20	18	10,8
21-40	17	10,2
41-60	57	34,1
61-80	50	29,9
81-100	25	15,0
Total	167	100,0

In our survey we asked to executives if their firm reached goal in Global Financial Crisis. The results are given in Table 5. Most of the executives (%64,1) mentioned that their firm could not reach goals during Global Financial Crisis. Only %35,9 of the firms could reach goals. This result showed that 2007 Global Financial Crisis hit the real sector in Turkey.

Table 5: Could Firms Reach Their Goals

	Frequency	Percent
Yes	60	35,9
No	107	64,1
Total	167	100,0

We asked a second question to 60 executives, who said that their firms reached goals in Global Financial Crisis. This question is about the ratio of ICT investments on reaching goals of the firms. The results are given in Table 6. It is seen that %80 of the participants said that ICT investments have an important role (have ratio more than %40) on achieving the goals of the firms. This is because of the productivity increase effect of ICT investments.

Table 6. The Ratio Of ICT Investments On Achieving Goals of Firm.

Ratio	Frequency	Percent
0-20	9	15
21-40	3	3
41-60	20	33,33
61-80	16	26,66
81-100	12	20
Total	60	100,0

The questions, which measure the contribution of ICT investments to firm productivity, are given in Table 7. Also frequencies are defined in Table 7. Question 13 and 14 are about the negative effects of ICT’s. Some of the questions are organized to measure the perception of executives about the contribution of ICT on productivity of employees. Also we suggested that advanced communication systems will help on achieving high productivity level. There is no item that disturbs reliability level.

Table 7. Second Part of Survey

	I Strictly disagree		I disagree		I have no idea		I agree		I strictly agree	
	f	%	f	%	f	%	f	%	f	%
1. ICT decreases production time.	2	1,2	13	7,8	6	3,6	136	81,4	10	6
2. Employees can get information easily by the help of ICT.	1	0,6	4	2,4	3	1,8	133	79,6	26	15,6
3. ICT helps employees in making decisions fastly and easily.	1	0,6	4	2,4	5	3	128	76,6	29	17,4
4. ICT facilitate communication between employees.	1	0,6	3	1,8	4	2,4	136	81,4	23	13,8
5. ICT effects communication of firm with outside positively.	1	0,6	5	3	5	3	126	75,4	30	18
6. ICT facilitate communication with customers.	1	0,6	4	2,4	4	2,4	122	73,1	36	21,6
7. ICT facilitate communication with suppliers.	1	0,6	3	1,8	6	3,6	128	76,6	29	17,4
8. ICT helps firm in finding new markets.	1	0,6	4	2,4	7	4,2	126	75,4	29	17,4
9. ICT enhances quantity of goods.	2	1,2	9	5,4	15	9	115	68,9	26	15,6
10. ICT increases the capacity of firm.	1	0,6	4	2,4	8	4,8	129	77,2	25	15
11. ICT organizes the studying conditions of firm.	1	0,6	8	4,8	10	6	128	76,6	20	12
12. ICT decreases the costs of firm.	1	0,6	11	6,6	14	8,4	119	71,3	22	13,2
13. ICT effects communication between employees negatively.	9	5,4	57	34,1	11	6,6	78	46,7	12	7,2
14. ICT produces new problems because of infrastructure inability.	2	1,2	35	21	10	6	106	63,5	14	8,4

When Table 7 is analyzed, it is seen that most of the participants agree with the items defined in survey. For example; %81,4 of the participants agree with the statement which is “ICT decreases production time” and %79,6 of the participants agree with the statement which is “Employees can get information easily by the help of ICT”. But 13th statement has some different result. Although % 46,7 of the participants agree with this statement, the number of the participants (%34,1) who disagree with this statement is not low. This is true for also 14th statement. %21 of the participants disagree with the 14th statement. Both 13th and 14th statement is about the negative effect of ICT. As a result of these analysis, executives have no doubt about the contribution of ICT on productivity. They are aware of the importance of ICT.

We analyzed demographic characteristics of the participants and their opinions about the contribution of ICT to firm productivity. The results in Table 1,2,3 and 4 is used on our relationship analysis. Here are our hypotheses about the contribution of ICT on productivity.

H₀: There is no difference on thoughts of participants about the contribution of ICT investments on productivity according to sexes.

H₁: There is difference on thoughts of participants about the contribution of ICT investments on productivity according to sexes.

A surprising result is obtained after t test (Newbold,2006; 396) is conducted($t = -2,491$, sig.:0,016). Males and females have different perspectives about the contribution of ICT investments on firm productivity, in other words H₁ is accepted. Females’ thoughts are more optimistic about the contribution of ICT investments.

H₀: There is no difference on thoughts of participants about the contribution of ICT investments on productivity according to education level.

H₂: There is difference on thoughts of participants about the contribution of ICT investments on productivity according to education level.

This analysis is done with Anova test (Orhunbilge,1997,188; Kalaycı,2008,131). As a result of this test it is found that the executives who have different education levels have no different thoughts about the contribution of ICT on firm's productivity ($F= 0,887$ sig.: 0,414). H_0 is accepted. We hoped that high educated executives will be more optimistic about the contribution of ICT, therefore this result is surprising, too.

H_0 : There is no difference on thoughts of participants about the contribution of ICT investments on productivity according to ages.

H_3 : There is difference on thoughts of participants about the contribution of ICT investments on productivity according to ages.

As a result of Anova test we found differences ($F=3,285$ sig.:0,013). The executives who are older than 50 years old are more pessimistic about the contribution of ICT on firm's productivity. H_3 is accepted. The adaption of older executives to new technologies is more difficult so the result is what we hoped before the study.

H_0 : There is no difference on thoughts of participants about the contribution of ICT investments on productivity according to efficiency of ICT usage.

H_5 : There is difference on thoughts of participants about the contribution of ICT investments on productivity according to efficiency of ICT usage.

The firms which use %0-20 of the ICT capacity is %10,8; The firms which use %21-40 of the ICT capacity is %10,2; The firms which use %41-60 of the ICT capacity is %34,1; The firms which use %61-80 of the ICT capacity is %29,9; The firms which use more than %81 of the ICT capacity is %15. As a result of Anova test, we obtained that they have not different opinion about contribution of ICT investments ($F=1,109$ sig.:0,337). All executives agree about the contribution of ICT investments on firm's productivity. This will be a signal which shows that ICT investments will go on increasing.

CONCLUSION

After computer revolution the rules and structure of economy has changed radically. Employees found opportunity to do their jobs effectively. However the researches can not find significant evidences about the contribution of ICT on productivities before 1990's. Many scholars such as Brynjolfsson, Bresnahan found necessary evidences about the contributions of ICT on productivity after 1990's.

We conducted a survey on the executives of the firms in two industrial sites, which are located on İstanbul, to reveal the bias about the contribution of ICT's on productivity. The results of surveys are evaluated by using SPSS 16.00 statistical package programme. Five point likert scale is used in this evaluation process. All necessary statistical reliability analysis were done to measure the reliability of questions. Frequency distributions and mean tests were used during analysis of data.

Important solution is most of the executives agree that "ICT decreases production time", "Employees can get information easily by the help of ICT", "ICT helps employees in making decisions fast and easily", "ICT facilitate communication between employees", "ICT effects communication of firm with outside positively", "ICT facilitate communication with customers", "ICT facilitate communication with suppliers", "ICT helps firm in finding new markets", "ICT enhances quantity of goods", "ICT increases the capacity of firm", "ICT organizes the studying conditions of firm", "ICT decreases the costs of firm". Shortly executives thought that ICT investments help in achieving the goals of firms and increase the productivity.

Also we obtained other solutions below.

- a) Females are more optimistic about the contribution of ICT investments on firm's productivity than males. They thought that ICT investments have critical role on achieving firm goals.
- b) The thoughts of high educated executives and low educated executives about the contribution of ICT investments on firm's productivity is not different.
- c) Older executives have pessimistic thoughts about the contribution of ICT investments on firm's productivity. They don't think that ICT realizes productivity increase.
- d) Also the executives of firms, which use ICT efficiently and inefficiently, don't have different thoughts about the contribution of ICT investments on firm's productivity.

Nowadays scholars achieved to reveal the effects of ICT investments on productivity. As a result of our analysis we found that most of the executives have optimistic thoughts about the contribution of ICT investments. So we can estimate that ICT investments will go on increasing and this will be an important step for transforming Turkish economic structure. Finally Turkish firms will be more competitive because of the ICT investments.

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A NEW APPROACH TO MENU ANALYSIS; 3P METHOD: HOW TO ANALYZE A MENU BY USING PROFITABILITY, POPULARITY AND PERFORMANCE OF MENU ITEMS

**Mehmet Sariisik
Muhsin Halis
Oguz Turkey**

Sakarya University, Turkey

ABSTRACT

In last three decades, a limited number of researchers have designated some menu-engineering models to evaluate the menu's offerings and try to optimize them. Most of those models have two variables, for instance Kasavana and Smith, Miller, and Pavesic's matrix models; hence they could only examine the item's costs and sales velocities. In 1990's, some menu researchers as LeBruto and Cohen, Mesika and Schwartz, have conceptualized multidimensional approaches consisted of food cost, labor cost, price, and sales velocity. There were three main problems about how to compute them, how to discuss the results and if other variables needed to analyze a menu.

Against the background briefly presented above, the purpose of this study is to develop a new three-dimensional model that includes profitability, popularity, and also performance called as 3P Model (it has adopted first by Sariisik et al., 2008) and to test it within some menu items of a restaurant's menu. This new model has developed with the inspiration gained both by of Kasavana and Smith's matrix and LeBruto's three-dimensional models.

Keywords: *Menu, menu analysis, menu engineering, menu planning, food*

INTRODUCTION

The food and beverage industry is the dominant one and is faced with numbers of challenges today. Changings in technology, consumers' trends and socials (demographic changes, new lifestyles and family patterns, healthy living, etc) put pressures on managers to improve their plans and compete with the others in the future. Menu is one of the most important subjects that managers (or owners) should pay attention. It should be well planned and professionally analysed.

The menu is not simply of a list of offerings with prices attached (Gee *et al.*, 1989), it is also a major marketing and cost control tool that influences whether an operation will maximize check averages, lower its food cost percentage and realize an adequate gross profit return (Lewis *et al.*, 1989), the foundation for the control process (Ninemeier, 1987), and one of the important aspects for the success of any food service establishment (Mifti, 2000). The menu is a key factor in influencing the guest's first impression of the facility, the menu selections they are likely to order, and sets expectations about the food and beverages they are about to receive (Antun and Gustafson, 2005). The primary objective of the menu is to sell the public what a restaurant wants to sell (Bowen and Morris, 1995), and to attract the customers and revenue (Professional Chief Association, 2003) and to set up effective communication with the market. Most importantly, the operator's success ultimately depends on how the restaurant offsets the costs of its offerings through an associated pricing scheme that returns a profit (Reynolds and Taylor, 2009). The menu is central to the food service concept; it defines the product offering, establishes key elements of financial viability, namely priced and contribution margin, and provides a powerful marketing tool. It is therefore not surprising that effective management of the menu can have a significant impact on operational success. (Jones and Merrics, 2006, 204).

Many restaurants undertake menu analysis only when they change menus. They do comparative analysis and they might even do a build up (Terry, 2002). Several menu analysis methods have been developed and used by operators and researchers. Menu analysis is the systematic evaluation of a menu's cost and sales data

(Professional Chefs Association, 2004), and it is often a module of other back office applications (Terry, 2002). The principle of the analysis is for the food service operator to identify the restaurant's primary dishes which both sell well and yield high profits and those that do not (Kwong, 2005). Horton (2004) described menu engineering as an accounting tool designed to facilitate the gathering of key pieces of information. Despite the considerable research work done on menu engineering many catering operators are still accustomed to thinking of menu item's gross profit as revenue minus food cost (Chan and Au, 1986).

LITERATURE REVIEW

It should be remembered that the philosophy of menu analysis is not new. Skilled chefs de cuisine in pre-Second World War kitchens regularly identified those dishes that were performing well and encouraged their sale. They also removed items from the menu that were not selling or were having an adverse effect on gross profit performance (Jones and Merricks, 2006, 204). Several sophisticated menu analysis methods have been described in the literature; have been proposed to analyze the menus and the most of them based on mathematical formulas and computations. such as menu engineering, goal value analysis, marginal analysis with using two or more criteria (Linda *et al.*, 1999). Menu analysis models help operators to decide which item is successful and which one should relocate or remove from the menu.

Menu analysis has been defined by a few researchers in the review. According to Lewis *et al.* (1989) it has largely used either food cost percentage or item contribution margin to define an optimum sales mix and helped operators choose what to feature (Terry, 2002). Menu analysis defined as a method that helps the menu function smoothly like a machine through processing or maneuvering Yang (1996), the systematic evaluation of a menu's cost and/or sales data to identify opportunities for improved performance (Linda *et al.*, 1999), a technique and procedure that makes more effective decision making possible with respect to marketing and management of the menu (Lee, *et al.*, 2003), a method to analyze existing menus or to plan and develop new menus for the purpose of improving the existing menu (Lee and Yang, 2005).

A variety of menu analysis methods were discussed in hospitality literature over the last 30 years. Despite the fact that they offer different approaches and focus on different characteristics, they all have a common goal of finding a strategy that will help restaurant managers reveal more profitable menu items and possibly increase menu profitability (Annaroud, 2008). The early methodologies for menu analysis are mean-based matrix approaches including Miller's matrix (1980), Kasavana and Smith's menu engineering (1982) and Pavesic's cost margin analysis (1985) (Kwong, 2005). Subsequently, more methodologies (with a variety of approaches) have emerged as attempts to refine the process of menu analysis, including: Hayes and Huffmann's goal value (GV) equation (1985); Bayou and Bennett's hierarchical profitability analysis (1992); Atkinson and Jones' micro-marketing mix (1994); Beran's graphical economic approach (1995) and LeBruto et al. and LeBruto et al. three-dimensional matrix (1995 and 1997) and Cohen, Mesika, and Schwartz's multidimensional approach (1998). Few menu analysis techniques have been embraced so readily and institutionalized as quickly as menu engineering. Menu engineering has been widely reported and discussed in the hospitality literature and has been frequently adopted as an integral part of the food service curricula in hospitality education worldwide.

In 1980, Miller developed the first matrix (that was called as Miller's Matrix) about menu analysis consisted of food cost percentage and popularity. He took notice of averages about those two variables. By using averages for two variables, four quadrants have been occurred and each menu item can be placed on them depending on four alternatives. Miller called some menu items as "winners" that were with low cost percentage and high popularity and also called some as "losers" were with low popularity and high cost percentage. He considered about the food cost percentage, so the main aim of that matrix was to decrease those percentages for all menu items

Kasavana and Smith (1982) developed a similar matrix as Miller's and they called their new model as "Menu Engineering". It was based on contribution margin (CM) as known profitability and popularity of each menu item that based on selling numbers. The main aim of that matrix was to point out items which both sold and provided profit well. Kasavana and Smith classified menu items with four quadrants, as Miller by replacing them depending upon four alternatives. Each dish's unit sales are divided by the total number of entrée sales to determine that menu item's sales percentage (Ninemeier, 2001). Based on the scores in the menu mix percentage and the contribution margin categories, each entrée is then placed into one of the four quadrants of the matrix: "Stars", "Plowhorses", "Puzzles" or "Dogs".

Pavesic (1985) considered the profit factor by comparing an individual menu item's CM with the weighted average contribution margin of the menu. He reasoned that promoting the sale of a menu item which

contributed to a large proportion of sales and had a low cost percentage, would be counter-productive if the item had a low selling price relative to substitute products on the menu (Morrison, 1996). The model was shortly called “Cost-Margin Analysis” in the literature. Depending upon Pavesic’s model, an item with a profit factor of 100 percent or higher was called as “high” label. The benefit of computing the profit factor is that it allows for another dimension of analysis, rather than relying on only “high” or “low” profitability labels. It informs the operation of how much the contribution margin exceeds or falls short of the weighted average contribution margin as a percentage (Raab and Mayer, 2007).

Uman (1983) identified four kinds of menu items, namely, "Signature", "Lead item", "Hard to sell", and "Losers" by using total cash contribution and the unit contribution margin. This method is different from others in that it considers only the total cash contribution. Merricks & Jones (1988) uses simple cash contribution (SCO) instead of total cash contribution (TCC) for each menu item. However, they do not give a name to each category (Lee and Yang, 2005).

Hayes and Huffmann (1985) have challenged the inherent flaw of the early matrix approaches. They point out that since the axes on the matrix are determined by an average value, by definition some dishes will always fall above the mean and some below it, thus falling into the less-desirable categories. Hayes and Huffman avoid a matrix approach with its inherent problem of comparing averages and propose individual profit and loss statements for each competing item within each menu category. All direct costs are deducted from revenue and each dish is evaluated on its merits. As individual contribution to profit is only one of many factors to consider when designing a menu, Hayes and Huffman stress the need to monitor sales volume and consumers’ perceptions of product quality. They emphasize that the objective of menu analysis should be to complement the strategic goals of the total operation (Morrison, 1996).

Bayou and Bennett (1992) developed a profitability analysis model designed to assess the profitability of menu items, which included the consideration of labor. They stated that the profitability analysis of a product should be stratified and a specific product should refer to an indivisible service. They proposed a method of analyzing profitability suitable for a table service restaurant. Beran (1995) suggested a marginal and cumulative approach in order to solve the problem of menu engineering in which the average can be affected by distortion or an ideal point. Jin (1998) developed a menu analysis model that compared the percentage of sales volume of a menu item and food cost with total profit and net margin. LeBruto (1995) developed a menu engineering method, which look account of labor cost as well as food cost (Lee and Yang, 2005).

Subsequently, more methodologies (with a variety of approaches) have emerged as attempts to refine the process of menu analysis, including: Hayes and Huffmann's (1985) goal value (GV) equation; Bayou and Bennett's (1992) hierarchical profitability analysis; Atkinson and Jones' (1994) micro-marketing mix; Beran's (1995) graphical economic approach and LeBruto et al (1995) and LeBruto et al (1997) three-dimensional matrix, Cohen *et al* (1998) mutidimensional approach. Hayes and Huffman, Bayou and Bennett and LeBruto *et al.* have each addressed the question of improving the variable cost weakness but have tackled the refinement of the matrix models in different ways (Morrison, 1996). Each menu analysis framework incorporates its own set of variables to evaluate menu item performance, thus interpreting the outcome from different perspectives. Dougan (1994) recognized the importance of using menu engineering as a management tool, and contributed a spreadsheet example to help facilitate operators in the use of menu analysis. But menu engineering by itself is not enough to produce the desired results effectively.

LeBruto *et al.* (1995) expanded the menu engineering model by adding a labour component. They stated that rankings and labelling of a high and a low labour classification should be a judgement call made by professional food managers or through employing the technique of a jury of executive opinion, which is a method commonly utilized in qualitative forecasting models (Schmidgall, 1997). The LeBruto *et al.* (1995) model changed the matrix to a three by two model by adding the classification of each menu item as high or low in labour effort, relative to the entire section of the menu being engineered. LeBruto *et al* (1995 and 1997) suggest that linear regression analysis can clearly distinguish the fixed costs from variable costs and argue that all variable costs should be included in order to compute the “true” net profit for individual dishes (Morrison, 1996). LeBruto *et al.* (1995) designated labour as either high or low in the menu engineering worksheet, and incorporated this label into the existing model. Ranking the labour effort required for each menu item relative to the other menu items in the grouping resulted in a label of “high” labour cost for the menu items in the top one half of the rankings and a “low” labour cost label to each menu item in the lower one half of the group.

Loft (1989) recognised the need to consider labour in menu engineering and suggested than an exercise in determining the actual labour effort that Ashley (1995) concluded that there is variability of demand of each item sold on a daily basis and stated that linking a dollar amount of labour to a particular item would be inaccurate because situations exist where the labour and customer count is the same on two successive days,

but the sales mix differs. They recommended dividing the menu items into high labour and low labour, adding a new dimension to the menu-engineering model, a three by two matrix.

Horton (2001) expanded on this point, noting that labor is not a differential cost. Reynolds and Biel (2007) argued that, in assessing the functionality of various aspects of a restaurant operation, including the menu, critical items that lead to profitability must be considered. Finally, matrix models assume incorrectly that all indirect costs are equally related to all menu items (Morrison, 1996). Raab and Mayer (2007) adapted a menu engineering model that includes activity-based costing methodologies in an attempt to trace all costs to individual menu items. Each of these models solved many of the traditional matrix-model issues, but introduced a new problem: difficulty in gathering the requisite data. Such analyses, while interesting from an empirical perspective, were not practical because the information analyzed is not readily available to operators. These menu management and analysis models share the common and irremediable shortcoming of variable interdependency, in which the central intersection between vectors in a matrix is dictated by the means for the associated variables. Equally problematic, it is mathematically impossible to represent all menu items in the same matrix quadrant. (Taylor *et al.*, 2009)

METHODS

The purposes of this study were to: (a) develop a new menu analysis model with a three-dimensional-that was applied in a research by Sariisik *et al.* (2008)- and (b) to test it in a restaurant menu items. The model was designed and developed by being inspired both LeBruto's three dimensions philosophy and also Kasavana and Smith's matrix. As known, Kasavana and Smith classified each menu item into one of four categories as determined by a matrix of popularity (high and low) and average contribution margin (above or below) and five years later LeBruto expanded the menu engineering model by adding a labour component to them. This new model developed the matrix two a three by two model by adding the classification of each menu item as high or low in sales number as called here "performance" month by month and the method has called as "3p's model" (Sariisik *et al.*, 2008) and is shown in Figure 1.

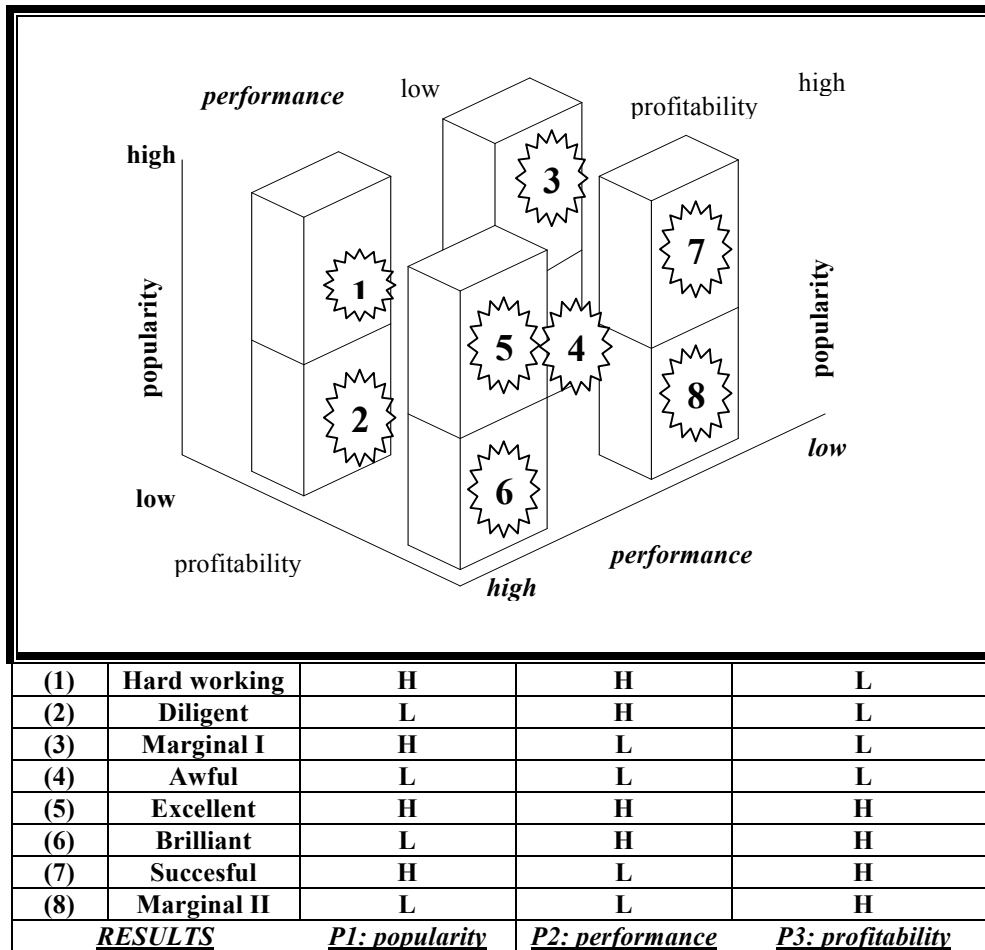
The key term here is "performance", has defined in this study as differences in selling numbers of menu items as high or low depending on an average sales number of a menu group month by month. Shortly, performance shows the changes in sales in a given periods (especially by month). Profitability is defined as the difference between sales price and costs of raw material while popularity is shown as sales number of a menu item. By using three variables, a three-dimension technique has been developed (Sariisik *et al.*, 2008)

Many restaurant managers recognized that the menu analysis was an important tool to evaluate the restaurant's success and to make decisions about the future. It is vital to know each menu item's selling prices, food cost and also quantity sold to make decisions about cost control or income analysis. It is also important to know the differences selling number changes of a menu item –especially new placed in a menu- in a given period while comparing with the others.

For instance, a menu item has low selling number with a given average number as classified "not popular" and low contribution margin in the group (selling price minus food cost) to the weighted average contribution margin of all menu items. According to the Kasavana and Pavesic's matrix, it has classified as dogs and should be removed from the menu. But the item has gone forward month to month and its selling graphics are increased while comparing others. In this point, a chance should be given to this item for the future. The model has considered that factor of a menu item. While developing this model, a student has no good marks but tries to pass the class, has been brought to mind. Depending upon three variables, a model has been illustrated in Figure, has created. There are eight alternatives that an item can be placed by using 3 variables in this method as LeBruto's three-dimensional method.

A qualified restaurant located in Kocaeli (a city with 200 thousands population, 90 km far away from Istanbul) with 200 seats have chosen to collect data in order to use for 3p Menu Analysis Method. At the beginning of March 2009 to April 2009, data about menu items were replaced in main dishes group (meat) have been collected on the unit price, sale price, food cost, and sales volume of each individual menu item. 2-month period was selected because the method also depended on comparing items during different terms in order to determine their performance. The number of items sold depending on March and April, cost per item, menu price per item, contribution margin per menu item, total contribution, and food cost of items will be analyzed in this research are shown in Table 1.

Figure 1. 3p menu Analysis Method with its variables and implementation.



After collecting data, contribution margin (CM) for each menu item, their selling performances month-to-month, and also item's menu mix (MM) were calculated and placed on the table in order to examine menu items depending on the method.

The rule of 70% of MM was calculated from the formula of 100% divided by the number of menu items x 0.7 formula for March and April. By the way for menu mix, April data will be used as item's popularity. The standard for the mean MM was 7,0% of each menu item. 7,0% was obtained by dividing 100 by 10 the number of menu items, and then multiplying by 0.7.

Contribution Margin (CM) for per menu item has calculated by dividing total contribution to 10, the number of menu items. As a result of formula, the average contribution margin has found as 618 € for each menu item and accepted that 10% was average percentage of CM by dividing 100 to 10 menu items.

And last, variations between selling numbers depend on two periods (March and April) were calculated as a percentage of each menu item and placed on the table. The average variation was calculated as 6,3% and it was compared with the all 10 menu items.

After calculating the average of MM, CM, and variation, each menu item has been analyzed according to the average numbers in order to place for each in 8 alternatives.

As it can be seen in Table 2, each menu item was classified in 8 categories. Menu items meatball, mixed grill and lamb sauté were identified as "excellent" because of their high percentage of menu mix, high average variation and high contribution margin. Those were the best of all menu items. Steak with pepper was called as "awful" with low popularity, low performance and also low contribution margin. That item should be removed from the menu and new one should be placed. Menu items such as beefsteak and shishkebab were identified as "successful", which had a high percentage of menu mix and high contribution margin but low performance while comparing with the average performance.

Table 1. The data of 10 menu items placed in main dishes group of a restaurant's menu (March-April 2009)

Menu Item	Number of sold (March)	Number of sold (April)	% of MM	Differences April - March	Difference (%)	Item selling price	Item food cost	Total food sales	Total food costs	Total CM per menu item	% of CM
Meatball	345	390	19,1	45	13,0	4	2	1560	780	780	12,6
Mixed grill	210	240	11,8	30	14,3	8,5	4	2040	960	1080	17,5
Beef straganof	120	135	6,6	15	12,5	7	3,5	945	472,5	472,5	7,6
Shnitsel	90	120	5,9	30	33,3	6	3	720	360	360	5,8
Lamb saute	180	195	9,6	15	8,3	6,5	3	1267,5	585	682,5	11,0
Steak with Pepper	120	105	5,1	-15	-12,5	7,5	3,5	787,5	367,5	420	6,8
Roasted meat	120	135	6,6	15	12,5	6	3	810	405	405	6,6
Beefsteak	195	180	8,8	-15	-7,7	6,5	3	1170	540	630	10,2
Chopsteak	180	210	10,3	30	16,7	5	2,5	1050	525	525	8,5
Shishkebab	360	330	16,2	-30	-8,3	6	3,5	1980	1155	825	13,3
TOTAL	1920	2040	100,0	120				12330	6150	6180	100
Average	*				***					**	
	<i>134,4</i>	<i>142,8</i>	<i>7,0%</i>		<i>6,3</i>					<i>618</i>	<i>10</i>

* total number of sold /10 (number of menu items) X %70 (elasticity) – popularity

** total contribution margin (CM) / 10 (number of menu items) – profitability

*** Variation ratio of menu items accordind to March and April – performance

Menu item chopsteak was belonged to the category “hard working” which had a high percentage of menu mix, high performance level but allow contribution margin. Its menu price may be increased or its cost can be reduced in order to put it in excellent category. And menu items beef stroganoff, shnitsel, and roasted meat were classified as “diligent” because of their low contribution margin, low percentage of menu mix but high performance. Those are identified as “dogs” depending on Kasavana and Smith’s matrix, and normally had to be removed from the menu. As a result of using performance variable, managers would let them to stay on menu for the future. Because it can be seen that those might be more better if they had enough chance for the next period.

Table 2. Evaluations of 10 menu items using the 3p Menu analysis model

Menu items	Popularity (7,0%)	Performance (6,3%)	Profitability (10,0%)	Results
Meatball	H	H	H	Excellent
Mixed grill	H	H	H	Excellent
Beef stroganoff	L	H	L	Diligent
Shnitsel	L	H	L	Diligent
Lamb saute	H	H	H	Excellent
Steak with Pepper	L	L	L	Awful
Roasted meat	L	H	L	Diligent
Beefsteak	H	L	H	Successful
Chopsteak	H	H	L	Hard working
Shishkebab	H	L	H	Successful

CONCLUSION

Menu analysis models have been developed since the 1980's depending on some variables such as contribution margin, sales number, food and labor costs in order to analyse menu items and also to evaluate restaurant's success. As generally known quantitative analyses have been employed with relation to the average numbers. 3P model was developed with a three-dimensional approach consisted of profitability (CM), popularity (MM) and performance. Each menu item has been identified by using three variables and placed in one of 8 different categories. As a result of using “performance” factor, an item that's sales number

has been increased month to month, and/or year to year, has a chance to stay menu inspite of having low CM and low percentage of menu mix. Thus, menu can be analysed in more objective manner by using one more criteria that has called performance.

The issue of “how to analyse a menu” has been discussed by many researchers in the past. Most of them have been considered average numbers in their models by using restaurants’ data. Some of them have argued wether there was an average number, some of menu items had to be either below or above. If the manager tries to improve an item placed below of average, another one with a higher score may be dropped. The main disadvantage of all models has not considered other conditions as weather, ambiance, service quality, season and so on.

3P model has consisted of the averages of three variables as others and has quantified. While developing this model, objectivity has been tried to increase by adding one more variable to previous matrix. Also, none of the menu analysis models has regarded the variations of a menu item in a giving period. This model maybe discussed in the future researches by some researches; however it is believed that it may be an alternative for restaurant managers to evaluate their menus.

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A STUDY ON THE IMPACT OF FLEXIBLE MANUFACTURING SYSTEMS ON BUSINESS PROFITABILITY

Mustafa SOBA
Tunga BOZDOĞAN

Uşak University, Turkey

ABSTRACT

Competition conditions today are passing through constant and rapid changes. In this context, businesses must accommodate with these changes in the shortest time possible and rearrange their operations. In order to provide this, businesses need to have a flexible structure. Thus, flexible manufacturing becomes for them a strategic decision for gaining competitive advantage.

The performance of a business can be evaluated and analyzed according to various criteria such as market share, quality, efficiency and profitability. Flexible manufacturing activities of businesses must also be measured, evaluated and analyzed in the long run in terms of the business itself and the sector it operates in. The present study aimed to evaluate the performance of three ceramic manufacturers, which are assumed to use flexible manufacturing systems, in terms of profitability within the past twelve years.

Keywords: *Flexible Manufacturing System, Financial Reports, Profitability, Ceramic Sector*

INTRODUCTION

As the consumer possessed the power of determining the market structure, classical manufacturing systems have begun to be replaced with automated, technology-intense more flexible systems currently. Differentiation of products and sustainability of customer satisfaction create the foundation for competition. The product diversity increase in this context and its change according to demand has brought on the agenda the flexibility of production. Currently, enterprises have tended towards Flexible Manufacturing Systems as a strategic decision due to multitude of product varieties, and need for high quality and customer-orientedness. As technology is commonly used at the enterprises which apply flexible manufacturing system as a modern production system, the share of labor costs, among the elements which constitute the finished product cost decrease, while the share of production costs increase. This study considers the enterprises which implement a flexible production system within the axis of these changes, and the enterprise is tried to be evaluated according to profitability criteria as the enterprise's performance indicator. For this purpose, the activity reports of the enterprises operating in ceramic sector in the Western Anatolia Region of Turkey have been inspected, and the impact of the changes in the last ten years on profitability within the framework of flexible production system tried to be outlined. The study includes three stages. First the literature review on the subject was conducted, then the data on the subject were collected from the ceramic production enterprises operating in Western Anatolia Region of Turkey, and the activity reports were examined in comparison and analytically. In the final stage, the findings and the results of the analysis were presented. The application of this study at other enterprises which apply flexible manufacturing systems in Turkey, mainly in automotive and textile industries by considering other performance criteria may be suggested.

LITERATURE REVIEW

Flexible manufacturing systems have drawn the attention of researchers, enterprise managers and owners especially from the beginning of 80's to the present. As flexible manufacturing systems create a strategic

decision for management on behalf of the enterprises, they are included in many researches and literature and they receive interest on a large scale (Elango, 1994). In addition, production flexibility on a system level, can be critical factor in the process of strategy modification (Llorensa, 2005). Performance measurement of enterprises started with the measurement of performance on units level in 70-80's. The researches on measuring the performances of the subjects in flexible manufacturing systems followed it from mid-80's. Certain researchers examined various aspects of quality, cost, time and flexibility from a strategic point, while some others developed structures for the functional or departmental performance in relation with the overall business performance. The studies were mainly concentrated on how the factory systems were associated with and affected the business performance. In time, a conclusion was reached that production system performance was influential on the overall business performance (Kabadayi, 2002).

Flexible production, which is the main basis of the study, was studied before regarding its impacts on businesses' profitability, sales revenues and cost items. (Olhager, 1993, Bayuk, 2008). Flexible production can be taken into consideration with various elements such as the set up time, capacity utilization, multi-functional labor force, modular product design; however, flexibility cannot be quantified like profitability. The quantification of profitability can be expressed as the ratio of the difference between sales and cost to assets. In addition, in order to identify the impact of flexibility on profitability, the impacts on capacity, sales quantity and costs should be considered separately (Olhager, 1992). At the businesses which implement flexible production systems, the intensity of production costs also vary. In this context, production expenses increase, while labor costs decrease significantly (Atkinson et al. 2004) and reductions on direct materials costs also occur (Karcioğlu, 2000). According to D'Souza; cost, quality and distribution of finished products in time can also be three fundamental measures of production performance. Certain researches indicate that flexible production is a major indicator of business performance and production performance (Newman, 1992). Studies which associate the relation between business performance and flexible production with financial and growth performance were conducted by; Swamidass and Newell (1987), Parthasarthy and Sethi (1993), Gupta and Somers (1996), Vickery et al. (1997), and the studies which associated it only with the financial performance were conducted by Ward et al.(1995) and Fiegenbaum and Karnani (1991).

Complex nature of manufacturing flexibility requires further studies to explain its entire structure more comprehensively. For example, studies which show the correlation between the environment and strategic, corporate and technologic changes, which provide the enterprise with a competitive edge and performance increase can be made.

METHODS

In addition to content, method and design are also as much important for the studies conducted in relation with flexible manufacturing. In the ongoing research processes, the existence of limits and the identification of Data Collection, Sample Range, Unit of Analysis, Metod, Item Scales in the studies is important.(Vokurka,2000) Conducted studies are listed according to; Data Collection (I-Interview, Q-Questionnaire. Arc.-Archival), Sample Range (S Ind.-Single Industry, Cr Ind.-Cross Industry), Unit of Analysis (SBU-Strategic Business Unit, Plant-PL.), Metod, Item Scales (SI-Single Item Measures, MI-Multiple Item Measures). Accordingly;

- Fiegenbaum and Karnani (1991) (Archival, Cr Ind., SBU, Data Base, SI),
- Das et al. (1993) (Archival, Cr Ind., Industry, Data Base, SI),
- Ward et al. (1995) (Q, Cr. Ind., SBU, Survey, MI),
- Gupta and Somers (1996) (Q, Cr Ind., SBU, Survey, MI),
- Safizadeh et al. (1996) (Q, Cr Ind., Plant, Survey, MI, SI),
- Parthasarthy and Sethi (1993) (Q, Cr Ind., SBU, Survey, SI),
- Dixon (1992) (Q, S Ind., Plant, Survey, MI),
- Gupta and Somers (1992) (Q, Cr Ind., SBU, Survey, MI),
- Boyer et al. (1997) (Q, Cr. Ind., Plant, Survey, MI),
- Ettlie and Penner-Hahn (1994) (I ,Cr Ind., Plant, Survey, SI),
- Upton (1995) (I, S Ind., Plant, Survey, SI),
- Vickery et al. (1997) (I-Q, S Ind., SBU, Survey, SI),
- Swamidass and Newell (1987) (I-Q, S Ind., SBU, Survey, MI),
- Suarez et al. (1996), (I-Q, S Ind., Plant, Survey, MI, SI).

The study considers the enterprises in ceramic sector in the Western Anatolia Region of Turkey and the Companies being traded in İstanbul Stock Exchange, and Archival, S. Ind., SBU, Data Base, SI are adopted.

TRANSITION TO THE FLEXIBLE MANUFACTURING SYSTEM AS A STRATEGIC DECISION

On the global markets, which are subject to constant changes and development, the market structure, its variety and the product quality are determined by the consumers. Consumers constantly desire new and different products which results in a flexible and fluctuating demand environment. Accordingly, flexibility and speed in production gain importance. The only way for businesses to react to this demand will be to adapt to new production technologies (Soba,2006:23).

While the flexible manufacturing system offers several strategic and operational advantages compared to conventional manufacturing systems, its efficient management ensures solutions for complex product management-related problems (Chen,2004:957).

In order to adapt to changes in a rapid and efficient manner, businesses today employ modern information technology and production techniques throughout the entire production process starting with the design phase through to planning, production and sales in an attempt to increase flexibility, quality and productivity. One of the greatest advantages that the flexible manufacturing systems provide is the use of high technology machines. The use of FMS's is also effective in terms of efficiency and capacity utilization, which is seen in the increase of the labor force and the current output as well as in the decrease in cost (Durmuş, 2007:9). In order to react to the customer's demand in time, shorten the production time, increase the quality and decrease the cost, businesses seeking competitiveness on the market prefer flexible manufacturing systems.

In an attempt to react to the fluctuating demand which is a result of changing consumer needs, businesses today have developed significant systems that provide manufacturing with a flexible structure. One of the most important systems is the "Flexible Manufacturing System" (Coşkunşap,1998:77). Flexible manufacturing systems are specific manufacturing systems which are able to react to new situations and adapt to the changes on the market rapidly involving the notion of flexibility and an intensive use of technology (Berruet, 2000:227).

A great number of definitions are available for flexible manufacturing systems in a variety of sources (Atalay *et al.*,1998:19), (Monks,1987:128), (Parrish,1990:16), (Maleki,1991:8), (Ronald and Charles,1993:125), (Siper and Bulfin,1997:45). Based on the common aspects of all definitions, the flexible manufacturing system can be described as a computer controlled manufacturing system composed of machines connected to one another that aims at reacting to the changing consumer needs in time.

The increasing customer needs caused by the heated competitive environment resulting from the demand of differentiation and change led many businesses toward a flexible and innovative attitude (Garavelli,200:39).

In this context, the importance of flexible manufacturing system as a strategic decision becomes visible. In our age, all manufacturing establishments that are able to employ flexible manufacturing systems gain competitive advantage and increase their market share.

High machine utilization, ability to produce different high-quality products in a short time, less plant area, decrease in labor costs, decrease in storage costs, easy programming and expanding and increased operation control can be named among the advantages of flexible manufacturing systems which have a synergistic effect (Özgen,1996:87).

Today, the flexible manufacturing activities of businesses are regarded positively by a great number of people (Olhager, 1993:69). There are many methods available for determining flexibility. Nevertheless, it is quite difficult to express flexibility in quantitative terms such as profitability (Olhager, 1993:76). The present study will examine plant, machine and equipment, an item which comprises a significant part of the tangible fixed assets included in the yearly financial reports of businesses and causes significant changes in the manufacturing system, as a sign of flexibility.

THE LINKS BETWEEN THE TERMS BUSINESS PERFORMANCE AND PROFITABILITY AND THE FLEXIBLE MANUFACTURING SYSTEM

Business performance can be defined as the extent, to which a business reaches its goals and fulfills its duties. In this sense, performance can be evaluated based on different aspects. The different aspects of performance can be named as quality, efficiency, budget price, profitability, innovation and efficiency. Determining the performance criteria to be applied in order to increase the existing performance and to sustain it in a business and providing successful performance measurement and auditing systems will only be possible, when the aspects of performance are determined accurately and the relation between them is established in a well balanced manner (Dağdelen,1997:50). It is the duty of the business management to implement this in accordance with the business strategies on a long-term basis.

In order to measure performance, firstly the aims need to be determined and secondly the criteria need to be selected within the scope of these aims. Then, measurements are carried out based on these criteria to find out the reasons behind the current performance situation. Subsequently, the required measures are taken and the results are observed. The performance evaluation process is then completed (Çetin,1997:46). The criteria of performance are rather quantitative terms showing whether or not the objectives were reached. Taking into consideration the rapidly growing competitive environment, however, it is not enough to compare the particular business with other businesses of equivalent type or with businesses which operate in the same branch of industry while measuring and evaluating the business performance. Whilst taking into account the aspects of performance and the customer satisfaction, the business does not only have to have an edge on its competitors, but it also has to be compared with the innovations it accomplished by exceeding its own pioneer targets (Çetin,1997:46).

The criteria applied in performance evaluation can be divided into two types: Qualitative and quantitative criteria (Hatiboğlu,1993:198). Examples for qualitative criteria can be named as hierarchical relations or personnel trainings whereas examples for quantitative criteria can be named as costs, divergence from standards, current output and quality, sales amount, sales revenues, profitability, market share and growth. In the present study, the criteria of profitability will be applied which is among the widely used criteria in evaluating businesses that use flexible manufacturing systems.

Criteria of Profitability

The main objective of all private establishments which are legal entities pursuing economic activities is to use the resources invested effectively in order to maximize the profit rate and to reach the maximum profit. In other words, the main objective of businesses is to generate profit. Indeed, no matter what perspective one approaches it from, private establishments which are legal entities doing business activities have to pursue economic activities in order to maintain their existence. To put it in another way, they have to operate in a profitable and efficient way (Uragun,1993:709). Profit is a substantial criterion of success. However, it is not enough by itself for measurements. In order for profit to be useful, it needs to be determined whether or not it is sufficient for the business and it needs to be connected with the factors that play a role in the formation of profit. In addition, the comparison between the growth of income and the growth of expenses as well as factors such as the income that the capital will provide in alternative fields of use, the change in profit within the past years and the profit targets of the business need to be taken in account (Akgüç,1987:375).

While interpreting rates of return as rates used in measuring the success of business activities, they have to be compared with those of other business operating in the same sector and their development during the course of the year has to be observed. The rates of return are used to determine whether or not the profit generated is proportionate, sufficient and permanent (Sevim, 2008:177). Usually, there are two types of rate of return: One is the profit in relation to the sales and the other one is the profit in relation to the capital (Sevim, 2008:177). In the present study, rates of return with regards to the profit in relation to the sales were addressed. Furthermore, their relation to the flexible manufacturing systems was explained. The rates used and their explanations are given below.

Gross Profit of Sales / Net Sales X 100

This ratio which is expressed in percentage indicates the importance level of the proportion of the gross profit on sales as the difference between the sales and the cost of goods sold in relation to the net sales revenues. In manufacturing establishments, it is expected to amount to nearly 50%. Based on the past years, it has to show an upward trend and needs to be evaluated within the particular sector. In businesses using flexible

manufacturing systems, this ratio is expected to be high. In businesses with a high ratio, a sufficient profit of the period can remain after covering operational, financing and other expenses (Sevim, 2008:178; Akdoğan, 2003:635).

Operational Profit / Net Sales X 100

This ratio indicates what percentage of net sales the operational profit corresponds to. This ratio shows the businesses' level of success with regards to the main activity. It is expected to be high. In businesses using flexible manufacturing systems, the corresponding ratios of other businesses operating in the same sector have to be examined and their development during the course of the years has to be observed on a long-term basis in order to understand whether or not this ratio is sufficient. Taking into account that it indicates the profit generated from the main activities of the business, it plays a major role in the analysis (Sevim, 2008:178; Akdoğan, 2003:635).

Net Profit of the Period / Net Sales X 100

This ratio indicates what percentage of net sales the net profit of the period accounts for. It is expected to come out as high as possible. A low ratio indicates that the business is unsuccessful in its activities and the activities do not contribute to the financial structure in a positive way. In such a situation, the performance of the strategic business cannot be interpreted in a positive way (Sevim, 2008:179). However, while evaluating this ratio, the tax related calculations as well as other expenses of the business have to be taken into consideration. Accordingly, it is more useful to analyze the operational profit in relation to net sales than to analyze the net profit of the period in relation to net sales while evaluating businesses using flexible manufacturing systems.

Operational Expenses / Net Sales X 100

The operational expenses made in order to generate revenues are comprised of research and development expenses, sales and distribution expenses and management related general expenses. Up to a certain percentage of sales, it is considered as reasonable. This ratio is higher in manufacturing establishments than in trade establishments and also plays a major role in interpreting the operational profit. While evaluating this ratio, the sectoral average ratios and the ratios from the past years should be taken into consideration (Sevim, 2008:179; Akdoğan, 2003:636).

In the present study, following ratios were addressed and analyzed besides of the rates of return used in evaluating business performance.

Asset Turnover = Net Sales / Total Assets

This ratio is expected to be high. It shows how efficient a business uses all the assets it possesses and what multiple of total assets corresponds to the sales generated. A business with high total asset turnover will accordingly have a high rate of return. Businesses with high total asset turnover can be considered as low risk businesses (Sevim, 2008:176). This also applies for businesses using flexible manufacturing systems. An increase of the total asset turnover indicates an increase of the capacity utilization (Ceylan, 2000:48)

Tangible Fixed Asset Turnover = Net Sales / Tangible Fixed Assets (Net)

This ratio indicates what multiple of tangible fixed total assets corresponds to the sales generated. It shows how efficient the tangible fixed assets are used. It also reveals information on the capacity utilization of businesses using flexible manufacturing systems. Especially after the years, in which an intensive investment was made in technology and machines, the development of this ratio needs to be observed on a yearly basis. It is expected to be high which has a positive effect on the profitability. In case of a revaluation, the ratio may come out low (Sevim, 2008:175).

ANALYSIS

The decision of flexible manufacturing systems as a strategic decision requires intensive investments in technology and thereby causes significant changes in the financial structure of a business. Therefore, it is necessary to analyze this process. The present study aims at depicting the relation between the business performance criteria and the profitability as well as evaluating the success of businesses.

Data Preparation

The objects of the present study are three joint stock companies operating in the ceramic sector which are listed on the Istanbul Stock Exchange. The analysis covers a period of 12 years beginning from 1997. The data used in the analysis were obtained from their yearly financial reports. In addition, corresponding

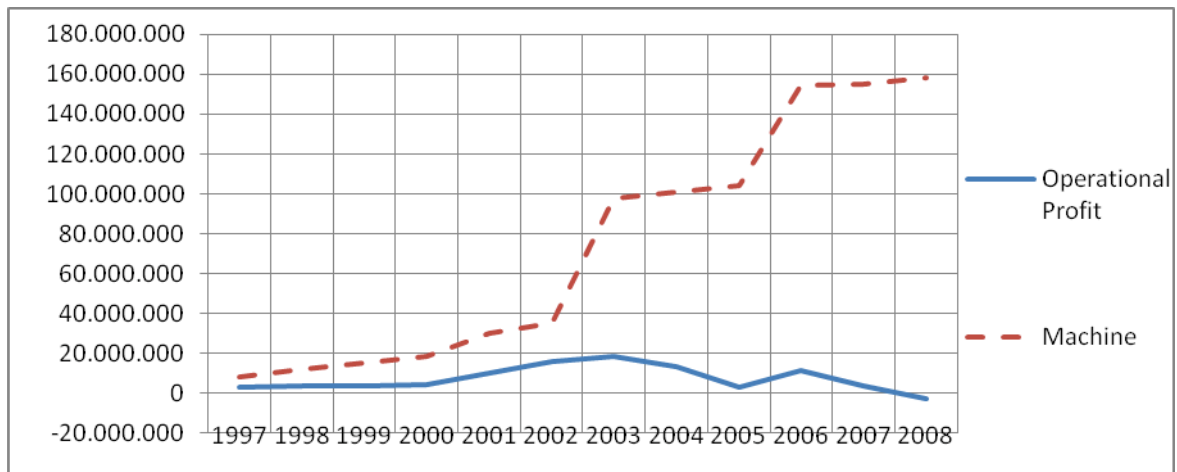
departments of each of the companies were contacted to gather subject-related information. In the present study, graphics on yearly basis were drawn up using the ratio analysis, and the businesses were evaluated correspondingly.

Evaluation and the Findings

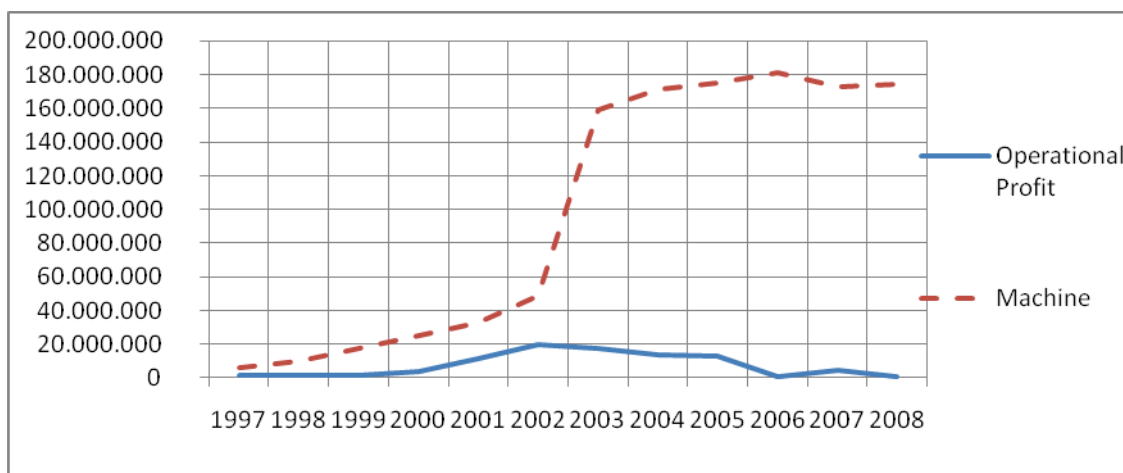
In the first stage of the present study, the corresponding departments of each of the companies were interviewed. As a result of the interviews, it was observed that each three of the companies had been making intensive investments in production technologies and purchasing computer aided machines within the last twelve years.

In this context, the relations between the investment in machines which is regarded as a sign of flexibility in production as it was mentioned before and the operational profits generated from the main activities of the business are given below in graphics for each of the companies on a yearly basis. Due to a decision in 2003 however, the companies started to apply current-cost accounting. Accordingly, they recalculated the value of their assets and substituted the new figures with the old ones on their financial reports. This can also be seen in the graphics given below.

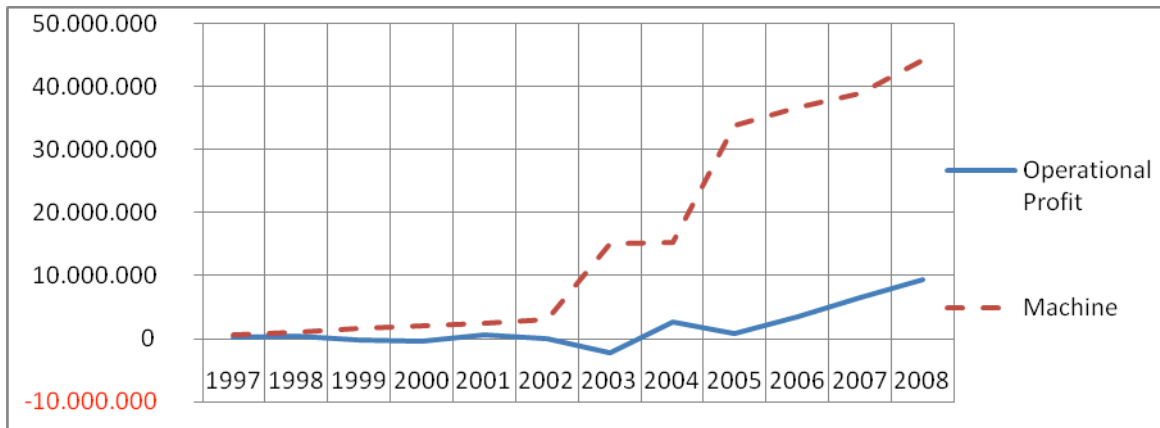
Graphic 1: Company A



Graphic 2: Company B



Graphic 3: Company C



Examining the plant, machine and equipment, an item which forms a part of the tangible fixed assets, it can be stated that in each of the three companies the operational profit generated from main activities was affected by the intensive investment in technology and machines and that they are linked to one another. Especially with regards to the company C, it was observed that the company made intensive investments in technology after 2005. It was further observed that the operational profits increased in parallel with the increase of investments. However, this relation may not only be the result of the investment in machines, but also the result of factors such as an increase in sales or decrease in cost. Extra analyses are needed to determine this.

Examining the rates of return of businesses on a yearly basis, following conclusions were made:

Table 1:

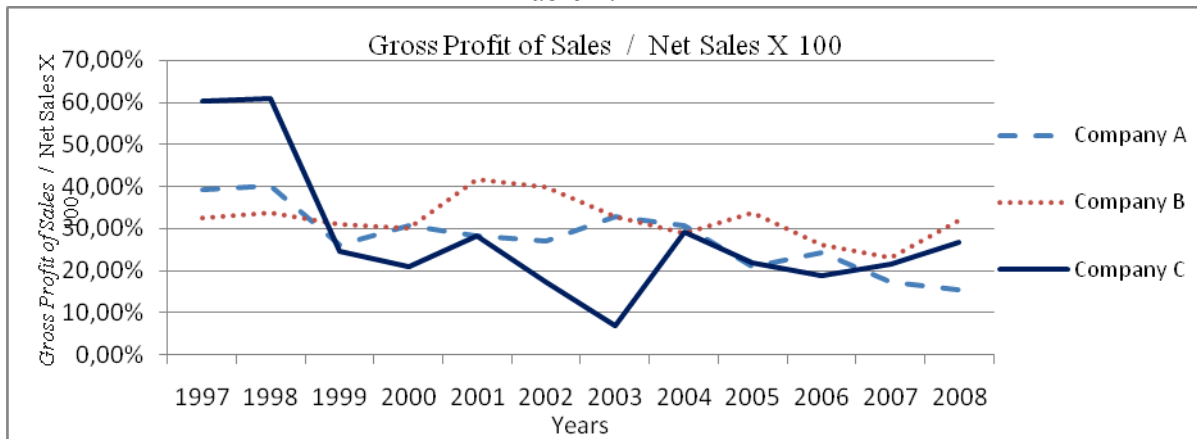


Table 2:

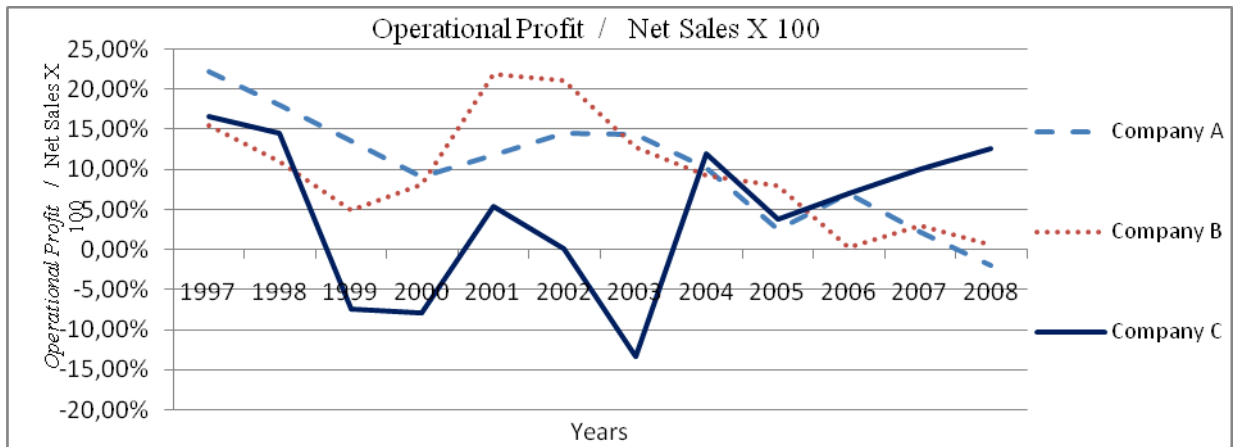
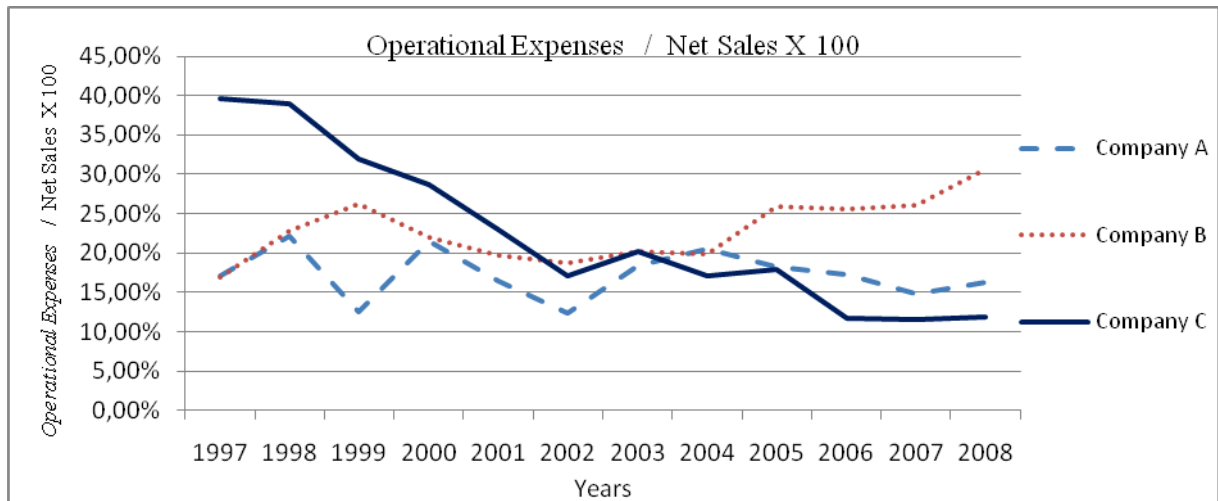


Table 3:



According to the conclusions made above, it is observed that especially the company C has been making intensive investments in technology and machines within the last years. It is further observed that due to the utilization of flexible manufacturing system, the company's profits have increased. In case of other companies, however, it is hardly possible to derive the conclusion that the change in profit showed a positive trend based on only these ratios. Talks with the company C revealed that they have been purchasing a substantial amount of machines since 2005 and increased the product variety. It can be seen in the conclusions that operational expenses comprised of research and development expenses, sales and distribution expenses and management related general expenses showed no significant change after the investments. Accordingly, it can also be seen in the conclusions that the operational profits show an upward trend. However, an evaluation of the flexible manufacturing system based on its development only within the last three years would be insufficient. The future development should also be monitored on a long-term basis.

With regards to the rates of return, the asset turnover and the tangible fixed asset turnover were also calculated within the scope of the present study in order to analyze the subject more thoroughly.

Table 4:

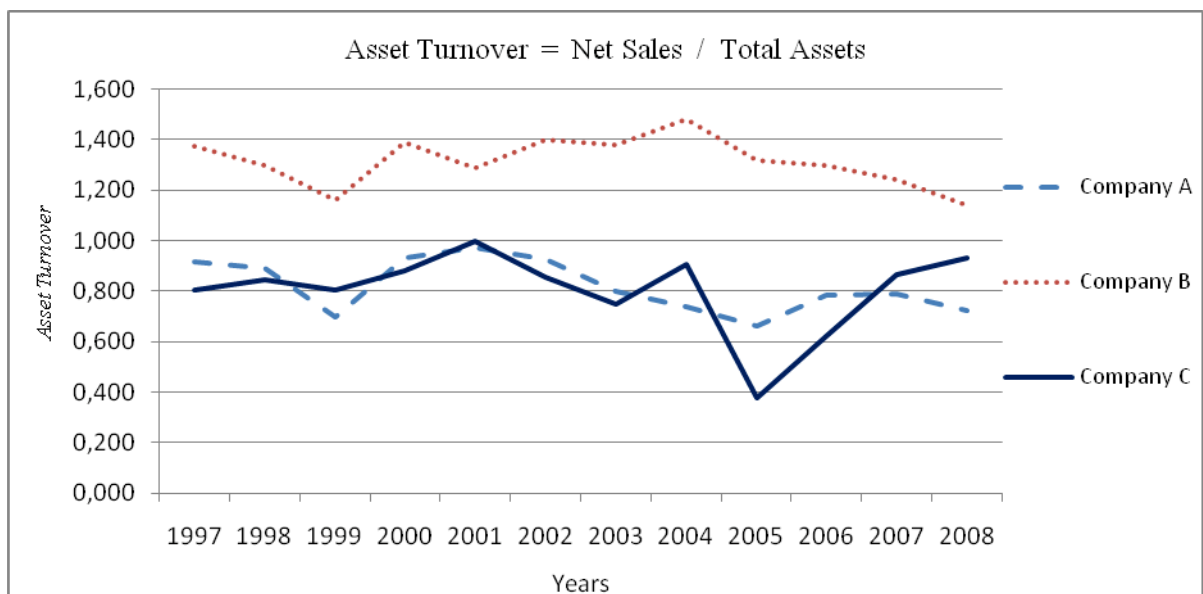
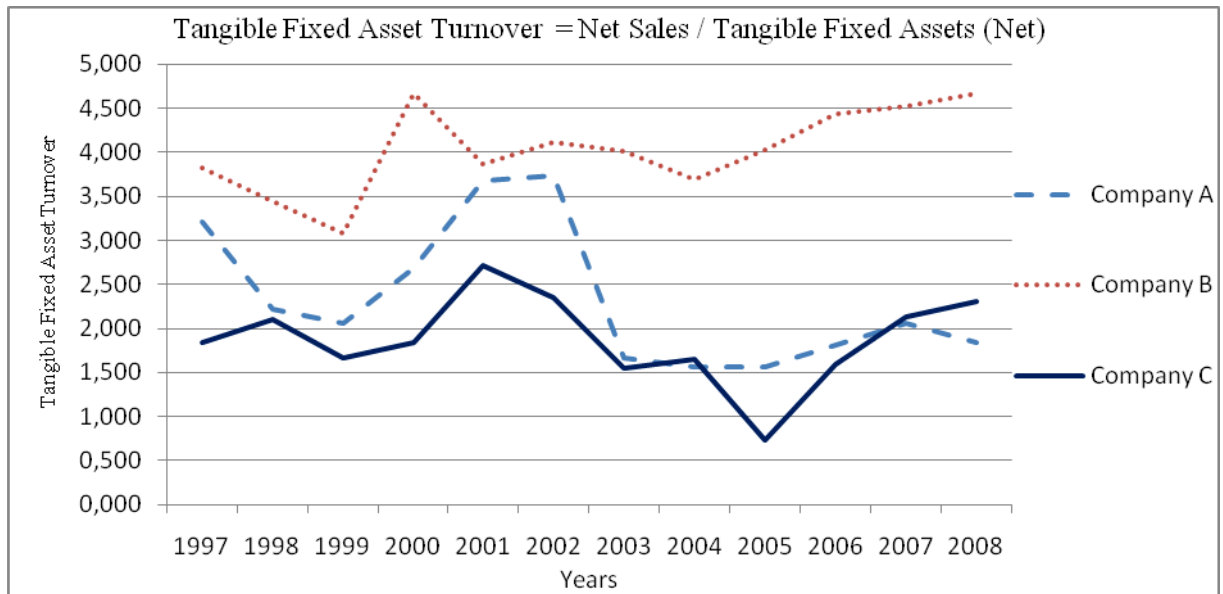


Table 5:



From these ratios which not only show the rates of return but also indicate the efficiency of the assets of a business and its capacity utilization, following conclusion can be derived: As in case of the company C, the asset turnover and the capacity utilization increase in parallel with the profitability, the use of flexible manufacturing systems in this company can be interpreted positively. With regards to the sector it operates in, it can be stated that the company will achieve a larger market share in comparison to other companies and be able to gain competitive advantages. In case of other companies, however, the profitability shows a downward trend. It can be stated that this situation indicates problems such as the unprofitability of economic activities, the capacity utilization, and the inefficient use of tangible fixed assets.

CONCLUSION

The factors impeding a clear identification of the links between the flexible manufacturing systems and the profitability can be named as follows: The existence of many different definitions of flexibility, the requirement of several difficult methods for expressing flexibility in quantitative terms, the financial crisis environment and the different financial policies applied by the companies. As a result of the analysis conducted, it can be stated that from the three manufacturing establishments operating in the same sector, the company C's profitability, which is one of the most widely used performance criteria, shows an upward trend due to the investments made and the introduction of flexible manufacturing systems. In terms of both the capacity utilization and the efficient use of assets, this situation can be interpreted as a positive development for the company. However, evaluating the introduction of flexible manufacturing systems on a yearly basis could provide a much better understanding as by doing this, the long-term performance would be portrayed more accurately. In addition to the rates of return, other analysis methods such as the Du Pont Analysis can be carried out yearly in a contrastive manner in order to monitor the process and thereby achieve more accurate results. Taking profitability as the only criteria in determining the business performance may not always be enough. In addition to profitability, other criteria such as the quality and the sales amount can be added to the analysis.

In conclusion, the flexible manufacturing systems become a strategic decision that needs to be considered by the companies so that they can gain competitive advantages under current circumstances, generate the maximum profit from the desired activities and increase their business efficiency. Similar studies can be carried out in other branches of manufacturing such as textile, furniture and automobile as well.

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**STRATEGY
FORMATION,
CHANGE & CONTROL**

EVALUATING THE QUALITY OF CORPORATE MISSION STATEMENT

**A. Dabbaghi,
Tehran University, Iran**

**A.M. Malek and A.R. Aulizadeh,
Islamic Azad University, Iran**

ABSTRACT

Strategic management contexts usually define a couple of activities including preparing a mission statement, which is one of the most essential parts in developing the strategic plan of an organization. Since the mission statement is designed to be viewed by majority of stakeholders, its quality seems to be of great importance. This research is supposed to study the mission statement quality, based on the components that should be a part of the discipline. Therefore, first and foremost, the attributes to be considered in the evaluation of the statement quality (mission components) are determined through the literature review. Secondly, since traditional methodologies cannot easily deal with numerous qualitative attributes, a multi criteria decision analysis based on Grey Theory is to employ to identify the importance of each attribute. At third step, the selected methodology has been applied and the numerical results specified the most important components to be considered in evaluating the quality of corporate mission statement.

Keywords: *Mission statement quality, Multi attributes decision analysis, Grey theory*

INTRODUCTION

Managing the evolution of mission statements is one of the most important responsibilities of senior management [Fitzroy, 2005]. Strategic management contexts include a process of strategic management that incorporates mission as one of the vital tasks in the strategic planning process [Thompson, 2001; Hill & Jones, 2001; Wheelen & Hunger, 2000]. Numerous articles point out the value of mission statements and suggest that almost every firm should have one (e.g., see [Bailey, 1996]).

Whether developing a new business or reformulating direction for an ongoing company, the basic goals, characteristics and philosophies that will shape a firm's strategic posture must be determined. The company mission statement will guide future executive action plans. The company mission is defined as the fundamental, unique purpose that sets a business, apart from other firms of its type and identifies the scope of its operations in product and market terms [Pearce & Robinson, 2005].

This paper is seeking to 1) determining the components that should be included in a mission statement which in fact are attributes to be considered in the evaluation of the statement quality and 2) identifying the importance of each attribute and specifying the most important ones.

After introduction, the article is organized into the following four parts: the First and foremost, the literature review is summarized. Secondly, the research methodology is identified. Thirdly, the identified methodology is applied and analyzed. In the fourth and final step, the conclusion of the research is presented.

LITRATURE REVIEW

Regarding the importance and vitality of mission statement in the strategic management context, there is no need to mention that the definition, the benefits and the specifications has been cited in nearly all referenced materials. In this research the judgment required for evaluation of mission statement quality is based on determining whether the statement satisfactorily included the given set of components. In addition, this research tends to propose a general methodology which is applicable to evaluating statements of different kind of organizations. Therefore, the references explicitly cited the general components of the mission statement are chosen and summarized in table1.

References Component	Description	[Pearce]	[David]	[Fitzroy]	[Finlay]	[Johnson]	[Olsen]	[Thompson]	[Pearson]	[Bryson]	[Dobson]
		Principle business aims and main activities	the principal activities Regarding the position it aims to achieve in its chosen business			*		*		*	
Philosophy, Key believes and values	Basic beliefs, values, aspirations, and philosophical priorities	*	*		*	*		*		*	*
Stakeholders	Definitions of who are the major stakeholders of the business									*	*
Guiding principles	Defines the code of conduct that tells employees how to behave										*
Natural resources	from which natural resources the business values are being created			*							
Technology	The principal technology which the business focuses on	*	*	*					*		
Product/service	What are the firm's major products or services	*	*	*					*		
Market/market segment/ geographic scope	The selected markets that the firm offers its variety of Products/services	*	*	*							
Customer needs	Which Customer needs are going to be satisfied	*		*			*				
Purpose of the organization / Company goals: Concern for survival, growth and profitability	The firm's reason for being and its intention to secure its survival through sustained growth and profitability	*	*		*	*		*		*	*
Public image	Reflecting the public's expectations	*	*				*				
self concept	Describing the corporate and its place in its environment	*	*								
Customers	Who are the firm's customers		*						*		
Concern for employees	Regarding the employees as a valuable asset of the firm		*						*		
Strategic goals	What it wishes to achieve				*						
Standards	Organizational policies and norms of behavior				*						
strategic pathway	The means it will use to achieve its goals				*						
Quality	Managing the quality of products and services	*									
Core competencies	Distinctive competency of the company in comparison to its competitors						*				

Table 1- summary of the literature review

METHODOLOGY

In this paper, the Grey Theory which is a new well-known Multi Criteria Decision Analysis technique is utilized. MCDA includes a set of concepts, methods and techniques that seek to help individuals or groups to make decisions, which involve several points of view in conflict [Belton & Stewart, 2002].

The Grey theory can resolve the problem of incomplete information requiring only a small amount of data to be effective [Pai & Hanaki & Hsieh, 2007]. Due to the presence of incomplete information and uncertain relations in the evaluation of the current system, it is difficult to analyze it by using ordinary methods. On the other hand, grey system theory presents a grey relation space, and a series of nonfunctional type models are established in this space so as to overcome the obstacles of needing a massive amount of samples in general statistical methods, or the typical distribution and large amount of calculation work. Grey Theory can be effectively utilized to calculate the attribute weights from incomplete information gathered from subjective judgments of DMs. This procedure that can be employed instead of pair-wise comparisons (common in Analytic Hierarchy Process) will decrease the number of questions that should be answered by DM. Therefore, consider a large number of qualitative attributes the Grey based techniques are more efficient in comparison to the traditional MADM techniques such as AHP. In fact, The Grey Systems Theory and

Geometrical Mean for Grey numbers are employed in this paper. The process of evaluating the corporate mission statement quality is shown in Fig. 1.

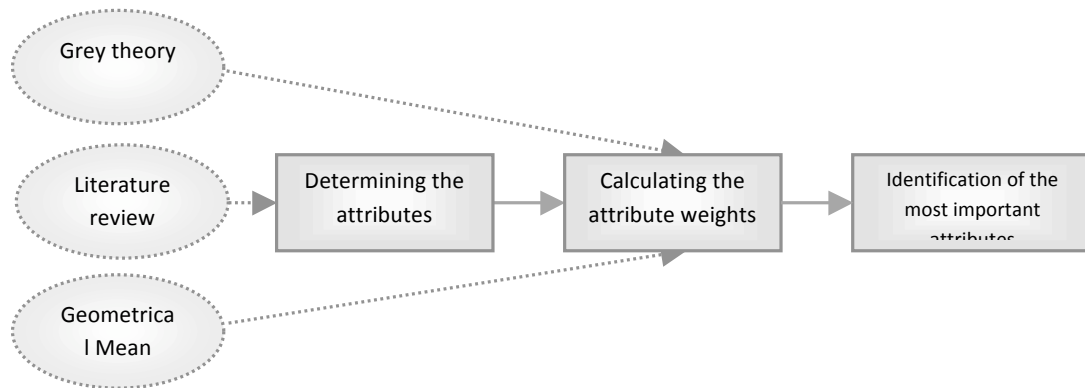


Fig. 1- The framework for corporate mission statement evaluation

An introduction to Grey theory

Grey theory, proposed by Deng in 1982 [Deng, 1989], is an effective mathematical means to deal with systems analysis characterized by incomplete information. Grey theory is widely applied in fields such as systems analysis, data processing, modeling and prediction, as well as control and decision-making [Chen & Tzeng, 2004; Zhang & Wu & Olson, 2005].

Using grey number to calculate attributes weight

Each grey system is described with grey numbers, grey equations, grey matrices, etc. A grey number is such a number whose exact value is unknown but a range within that the value lies is known. In applications, a grey number in general is an interval or a general set of numbers.

Grey number operations are the operations defined on sets of intervals, rather than real numbers. Definition 1 identifies the four basic grey number operations on $\otimes G_1 = [\underline{a}_1, \bar{a}_1]$ and $\otimes G_2 = [\underline{a}_2, \bar{a}_2]$.

Definition 1:

- (1) $\otimes G_1 + \otimes G_2 = \left[\underline{a}_1 + \underline{a}_2, \bar{a}_1 + \bar{a}_2 \right]$
- (2) $\otimes G_1 - \otimes G_2 = \left[\underline{a}_1 - \bar{a}_2, \bar{a}_1 - \underline{a}_2 \right]$
- (3) $\otimes G_1 \times \otimes G_2 = \left[\min \left(\frac{\underline{a}_1 \underline{a}_2, \underline{a}_1 \bar{a}_2, \bar{a}_1 \underline{a}_2, \bar{a}_1 \bar{a}_2}{\underline{a}_1 \underline{a}_2, \underline{a}_1 \bar{a}_2, \bar{a}_1 \underline{a}_2, \bar{a}_1 \bar{a}_2} \right), \max \left(\frac{\underline{a}_1 \underline{a}_2, \underline{a}_1 \bar{a}_2, \bar{a}_1 \underline{a}_2, \bar{a}_1 \bar{a}_2}{\underline{a}_1 \underline{a}_2, \underline{a}_1 \bar{a}_2, \bar{a}_1 \underline{a}_2, \bar{a}_1 \bar{a}_2} \right) \right]$
- (4) $\otimes G_1 \div \otimes G_2 = \left[\underline{a}_1, \bar{a}_1 \right] \times \left[\frac{1}{\underline{a}_2}, \frac{1}{\bar{a}_2} \right]$

The proofs of these basic operations can be obtained from [Li & Yamaguchi & Nagai, 2007].

The linguistic variables are used to represent imprecision of spatial data and DMs' preferences over the attributes in the evaluation process. In this paper, the attribute weights are considered as linguistic variables. These linguistic variables can be expressed in grey numbers by the 1–7 scale [Li & Yamaguchi & Nagai, 2007] shown in Table 2.

VH	H	MH	M	ML	L	VL	scale
[0.9,1.0]	[0.7,0.9]	[0.6,0.7]	[0.4,0.6]	[0.3,0.4]	[0.1,0.3]	[0.01,0.1]	$\otimes W$

Table 2- the scale of attribute weights

In order to endow the results with a higher value, it is advisable to have several experts take part in solving the problem of prioritization; these specialists are going to act as "decision-makers". Assume that $Q = \{Q_1, Q_2, K, Q_n\}$ is a set of n attributes of mission statement and the attributes are additively

independent. $\otimes w = \{\otimes w_1, \otimes w_2, \dots, \otimes w_n\}$ is the vector of attribute weights. Suppose that the decision group consists of K persons. According to Geometrical Mean for Grey numbers, the weight of the j th attribute can be calculated as:

$$(5) \quad \otimes w_j = \sqrt[k]{\otimes w_j^1 \times \otimes w_j^2 \times \dots \times \otimes w_j^k}$$

Where $\otimes w_j^k, (j = 1, 2, \dots, n)$ is the subjective judgment of the k th DM over the j th attribute described by grey number $\otimes w_j^k = [\underline{w}_j^k, \overline{w}_j^k]$, where $\otimes w_j^k \neq 0$.

Focusing on the most important attributes facilitates the evaluation process. In order to remove the attributes those are not essentially important we suggest and employ the following definition.

Definition 2: The j th attribute will be removed from the evaluation process if the following condition is satisfied:

$$(6) \quad \otimes w_j(\overline{G}) < \otimes w^{MH}(\underline{G})$$

, Where $\otimes w^{MH}(\underline{G}) = 0.6$.

APPLICATION AND ANALYSIS

The attributes to be considered in the evaluation of the mission statement quality as expressed in section 2, are as follows:

Q_1 : Principal business aims and main activities	Q_{11} : Philosophy, Key beliefs and values
Q_2 : Stakeholders	Q_{12} : Public image
Q_3 : Guiding principals	Q_{13} : self concept
Q_4 : Natural resources	Q_{14} : Concern for employees
Q_5 : Technology	Q_{15} : Strategic goals
Q_6 : Product/service	Q_{16} : Standards
Q_7 : Market/market segment	Q_{17} : strategic pathway
Q_8 : Customer needs	Q_{18} : Quality
Q_9 : Customers	Q_{19} : Core competencies
Q_{10} : Purpose of the organization / Company goals: Concern for survival, growth and profitability	

Calculating the weights of attributes Q_1, Q_2, Q_3 to Q_{19} , a questionnaire was designed to collect the preferences of twelve experts ($k=12$) as DMs: D_1, D_2, D_3 to D_{12} . These preferences and the calculated attribute weights based on Eq. (5) are shown in Table 3.

Q_j	D_1	D_2	D_3	D_4	D_5	D_6	D_7	D_8	D_9	D_{10}	D_{11}	D_{12}	$\otimes w_j$
Q_1	VH	VH	H	VH	H	H	H	H	VH	H	VH	H	[0.777 , 0.940]
Q_2	MH	VH	M	MH	VH	MH	M	ML	H	MH	H	MH	[0.581 , 0.721]
Q_3	M	VL	L	MH	H	M	ML	L	H	H	H	M	[0.284 , 0.516]
Q_4	L	L	VL	MH	H	ML	VL	L	H	M	M	M	[0.170 , 0.392]
Q_5	M	L	MH	VH	VH	ML	MH	H	H	M	H	H	[0.514 , 0.700]
Q_6	VH	H	VH	H	H	H	VH	VH	H	MH	VH	VH	[0.784 , 0.929]
Q_7	VH	M	VH	VH	VH	MH	H	MH	H	H	VH	VH	[0.738 , 0.880]
Q_8	VH	VL	H	VH	VH	M	ML	M	MH	H	H	VH	[0.448 , 0.664]
Q_9	H	VH	VH	H	VH	MH	VH	VH	H	MH	H	H	[0.758 , 0.902]
Q_{10}	MH	VL	VH	VH	VH	ML	MH	VH	H	MH	H	H	[0.479 , 0.681]
Q_{11}	VH	VH	H	H	VH	M	VH	VH	VH	H	MH	VH	[0.764 , 0.906]
Q_{12}	VH	H	H	H	H	ML	MH	VH	H	M	MH	MH	[0.625 , 0.777]
Q_{13}	MH	VH	H	H	H	M	H	VL	MH	ML	M	H	[0.415 , 0.633]
Q_{14}	H	VL	M	H	MH	MH	H	VH	MH	ML	M	MH	[0.405 , 0.607]
Q_{15}	H	L	MH	H	H	H	M	MH	VH	H	MH	H	[0.558 , 0.752]
Q_{16}	M	VL	L	MH	VH	MH	L	VL	MH	M	ML	M	[0.199 , 0.416]
Q_{17}	MH	L	L	H	VH	MH	L	VL	M	ML	ML	M	[0.238 , 0.450]
Q_{18}	H	L	L	VH	H	M	H	VL	MH	MH	L	M	[0.274 , 0.515]
Q_{19}	M	L	MH	VH	H	L	MH	H	H	M	H	H	[0.459 , 0.678]

Table 3- decision makers' preferences over attributes and the related calculated weights

All of The attributes ranked according to the upper limit of the related Grey number $\otimes w$ as shown in table 4. Then According to the Eq. (6) the attributes Q_3 , Q_4 , Q_{16} , Q_{17} and Q_{18} were removed from mission evaluation process.

Q_j	D_1	D_2	D_3	D_4	D_5	D_6	D_7	D_8	D_9	D_{10}	D_{11}	D_{12}	$\otimes w_j$
Q_1	VH	VH	H	VH	H	H	H	H	VH	H	VH	H	[0.777 , 0.940]
Q_6	VH	H	VH	H	H	H	VH	VH	H	MH	VH	VH	[0.784 , 0.929]
Q_{11}	VH	VH	H	H	VH	M	VH	VH	VH	H	MH	VH	[0.764 , 0.906]
Q_9	H	VH	VH	H	VH	MH	VH	VH	H	MH	H	H	[0.758 , 0.902]
Q_7	VH	M	VH	VH	VH	MH	H	MH	H	H	VH	VH	[0.738 , 0.880]
Q_{12}	VH	H	H	H	H	ML	MH	VH	H	M	MH	MH	[0.625 , 0.777]
Q_{15}	H	L	MH	H	H	H	M	MH	VH	H	MH	H	[0.558 , 0.752]
Q_2	MH	VH	M	MH	VH	MH	M	ML	H	MH	H	MH	[0.581 , 0.721]
Q_5	M	L	MH	VH	VH	ML	MH	H	H	M	H	H	[0.514 , 0.700]
Q_{10}	MH	VL	VH	VH	VH	ML	MH	VH	H	MH	H	H	[0.479 , 0.681]
Q_{19}	M	L	MH	VH	H	L	MH	H	H	M	H	H	[0.459 , 0.678]
Q_8	VH	VL	H	VH	VH	M	ML	M	MH	H	H	VH	[0.448 , 0.664]
Q_{13}	MH	VH	H	H	H	M	H	VL	MH	ML	M	H	[0.415 , 0.633]
Q_{14}	H	VL	M	H	MH	MH	H	VH	MH	ML	M	MH	[0.405 , 0.607]
Q_3	M	VL	L	MH	H	M	ML	L	H	H	H	M	[0.284 , 0.516]
Q_{18}	H	L	L	VH	H	M	H	VL	MH	MH	L	M	[0.274 , 0.515]
Q_{17}	MH	L	L	H	VH	MH	L	VL	M	ML	ML	M	[0.238 , 0.450]
Q_{16}	M	VL	L	MH	VH	MH	L	VL	MH	M	ML	M	[0.199 , 0.416]
Q_4	L	L	VL	MH	H	ML	VL	L	H	M	M	M	[0.170 , 0.392]

Table 4- Ranking decision makers' preferences and removed inefficient attributes

CONCLUSION

The most important components to be considered in evaluating the quality of corporate mission statement are concluded in this research as: (1) Principal business aims and main activities; (2) Stakeholders; (3) Technology; (4) Product/service; (5) Market/market segment; (6) Customer needs; (7) Customers; (8) Philosophy, Key beliefs and values; (9) Public image; (10) Self concept; (11) Concern for employees; (12) Strategic goals; (13) Quality; (14) Core competencies.

A multi attribute decision making procedure based on grey systems theory can be proposed based on the above mentioned concluding attributes and the resulting grey weights. Such a procedure can be used by corporate managers to evaluate and benchmark their mission statement in comparison to a set of similar companies effectively.

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A COMPARATIVE RESEARCH ON WHETHER EMPLOYEES PARTICIPATE IN THE PROCESS OF VISION DETERMINATION

Harun Demirkaya
Kocaeli University

Gürol Özcüre
Ordu University

ABSTRACT

This study investigates vision building, a fundamental starting point in strategic management. Whether national or multinational, vision building is critical for all strategically managed companies. The position responsible for building vision in a business is equally as important as enabling employee participation in the vision building process. This is why the study investigates the various managerial levels involved in the process of building vision, mission, objective and targets. The assessment of questionnaire forms developed for this purpose suggest that there is a similarity between building vision, mission, objective and targets, and employee participation. However the response coming from national and multinational companies to the question “Who builds vision?” returned different results.

Keywords: *Strategic formulation; vision; mission; objectives; employee participation.*

INTRODUCTION

Vision could be described as the sum of opinions, appearances, dreams of experienced and future related dreams, visions, and a road map to reach these visions, expectations, values, expressions, responsibilities, objectives and targets.

Through this perspective vision could translate as the expression of the past, the present and aspired future destination and a road map that ensures reaching this destination. This expression reflects an argument. Ambitious visions not only expose difference (Pearce II and Robinson: 1991:54) but also motivate stakeholders. Such motivation contributes to sharing business values, creating positive expectations amongst stakeholders and concentrate the business on the objective as a whole. If people really share a vision they interconnect with each other with a common desire. Such dedication transforms approach to the company, creating a feeling of being “our company”.

Such qualities make a vision to safe keep the future of the business. It is a manager’s compass directing them to guaranteed success. It is also a source of trust amongst customers, employees and stakeholders. Vision is by no means a secret declaration. It gains value the more it is shared and endorsed. It is especially important that vision is endorsed, discussed and shared amongst employees. Including employees in vision building process makes the vision a common vision. It will no longer be considered corporate vision, but rather perceived as “our vision”. Moreover, vision building requires a broad perspective. Vision builders without depth of perspective cannot be expected to develop successful visions. Ensuring participation of creative employees in the vision building process presents the potential of overcoming such risks.

Employee participation is an integral part of corporate governance. European corporate governance model is concentrated on “stakeholder value” and includes the protection of employees interests and employees have right to be represented at company management in the European Union (EU). But, some Multinational Companies (MNC) limiting this for transnational issues (Kluge, 2005:164). Employee participation is defined in the EU legislation as “*the influence of the body of representatives of the employees and/or the employees’*

representatives in the affairs of a company by way of 1-) the right to elect or appoint some of the members of the company's supervisory or administrative organ or 2-) the right to recommend and/or oppose the appointment of some or all of the members of the company's supervisory or administrative organ". It is clearly noticed that employees right to elect or appoint their representatives to companies supervisory or administrative organs in the EU. Although, there is a clear divergence of opinion and different options of employee participation. For instance, Attitudes towards employee participation demonstrates clear divergences in Germany, the UK and Spain (Veersma and Swinkels, 2005:193-199). Some times "involvement of employees" also used by same meaning which is described by Council Directive supplementing the Statute for a European Company, approved by the Employment and Social Affairs of 8 October 2001, "*any mechanism, including information, consultation and participation, through which employees' representatives may exercise an influence on decisions to be taken within the company*" (Article 2, h) (Blanpain, 2002:xv).

In practice, visions are generally the work of a leader (Kantabutra, 2009:1). Leadership is a process by which a person influences others to accomplish an objective (Kalpana, 2009:24). Besides the leader, executive managers are also known to effectively participate in vision building. However, these days the idea of sharing this responsibility with employees other than executive managers is gaining support all the time. It is argued that the most effective method of vision building is involving employees (Ülgen and Mirze, 2007:182). This contributes to employees thinking it being easier to reach ambitious visions that are shared. Additionally, visions reached with employee participation are judged to be more motivating. It is for these reasons that vision determination is a critical issue for businesses of all sizes. This basic research will attempt to reveal the managerial levels that are effective on this issue by examining the matter level of domestic and international businesses.

LITERATUR REVIEW

Businesses are financial entities composed of a coherent merging of production tools (Tosun, 1990:5) which create products and services to meet human requirements (Mucuk, 2008:6), provide profit to shareholders or owners and income to its employees, have social responsibility towards society, aspire to continue their existence and grow (Özgen and Yalçın, 2009:6).

Behind the conception of every business are the decisiveness, courage and effort of entrepreneur(s) who amalgamate production tools and take on the risk. In large businesses these entrepreneurs, who are simultaneously the owners or shareholders of the business, also constitute the general board of shareholders. This board assigns the authority of decision making to a self-elected board of directors (Eren, 2005:43). As they grow businesses require professional managers to execute their operations.

These managers are people who execute the task of management, in return for a specified fee, in order to effectively and efficiently reach objectives (Ülgen and Mirze, 2007:23) in a setup where the risk and profit belongs to someone else. In other words a manager is someone who participates in the management process by planning, organizing, leading, and controlling the resources of the organization (Bovee et al, 1993:5). Whilst managers can be elected from amongst business owners they can also be appointed from a selection of professional managers (Ülgen and Mirze, 2007:24).

Professional managers have the objective of ensuring that the business reaches long-term objectives. However, businesses require strategic management in order to continue existence in the long term, ensure sustainable competitiveness and generate above average income.

Strategic management is that set of managerial decisions and actions determining the long-run performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control (Whelen and Hunger: 1992:7). These aspects play a fundamental role in the business reaching its objectives. This allows the manager to understand and concentrate on internal and external factors affecting the business. It also enables being flexible enough to adapt to rapidly changing environmental conditions (Eren, 2005:8).

Strategic management is an organic process (Farjoun, 2002:588). This process starts with the notion of strategic consciousness. Strategic consciousness develops as a consequence of business owners and managers contemplating the reality that other businesses and competitors are perpetually creating and practicing new strategies. Such thoughts increase consciousness about how to build effective strategies in response to changing environmental conditions, new opportunities and threats.

Selecting a strategist or a strategic team from people with such level of consciousness is fundamental for the effectiveness of strategic management process. Whilst such strategists are selected from managers of different levels, they can also be procured within or out of the business operation.

Strategic planning must be a priority for strategists. To plan, one must first have a clear vision of the desired future organization (Steinbcaher and Smith: 2009:31).

Appointed strategists play an important role in several stages including strategic internal and external environmental analysis; vision, mission, objective and target determination in scope of strategic guidance; strategy selection, practice and monitoring. This perspective emphasizes the role of decision makers (Papadakis, et al, 1998:117). In all these processes decision makers are the top management and board of directors. But the vision of the TMT does not appear to be a sufficient condition to enable companies to obtain better results (Camelo-Ordaz, et al., 2008:632).

It is a well-known fact that the board of directors has a dominant role in determining vision, mission, objective and targets, which shed light on the direction of a business. Nonetheless, in practice founders, bosses, CEOs, CSOs, managing directors, upper management and specialists from within or out of the business operation can also undertake this responsibility.

The exact sequence and combination of steps differs from author to author, although the following seven element are usually present: (1) Analyse company's future environment, (2) Analyse future competition, (3) Analyse the company's resources and core competencies, (4) Clarify organizational values, (5) Develop vision statement, (5) Contrast vision with the present state of the organisation, (7) Use vision to develop strategic objectives, goals and options (O'Brien and Meadows, 2000:37).

There is a limited employee participation system in Turkey. Some legal change and adaptation of the EU legislation will support and allow to establish system for wider issues related to work organization in Turkey. Employee participation will also, enhance Turkish companies and subsidiaries of MNCs' competitiveness and stability operating in Turkey, in the EU and in the global markets (Özcüre-Demirkaya, at al., 2008:1025).

RESEARCH DESIGN

The study will look into the managerial levels effective in determining vision, mission, objective and targets in large-scale companies established in the Marmara Region of Turkey. Foremost the study will try to provide an answer to the question "who determines vision?" In this scope the study will investigate the extent employees participate in the vision building process.

The study will include domestically owned companies as well as multinationals. A Multinational Company (MNC) is a firm that has operations in more than one country, international sales, and nationality mix of managers and owners (Hodgets et al, 2006:6). Multinational companies conduct in depth domestic and international analysis. Objectives may vary according to geographical territory or the type of strategic business unit (SBU). We can mention of four different predispositions in these businesses: Ethnocentric, polycentric, regiocentric, geocentric predispositions (Rugman and Hodgets, 2003:217).

The study will initially test whether there is a significant difference between the presence of corporate vision, mission, objective and targets and if the company is national or multinational. Secondly, the study will test whether there is a significant difference between national and multinational companies in terms of players active in vision building. Thirdly the study will test whether there is a significant difference between national and multinational companies in terms of ensuring employee participation in vision building. Lastly, the study will test whether there is a significant difference between national and multinational companies in terms of methods to enable employee participation in vision building. The study will also investigate whether ethnocentric and geocentric approaches have an effect on the vision building process. Concisely, the study will compare predominant factors involved in vision building practiced at national and multinational companies

The questionnaire forms developed for this purpose were sent electronically to 500 large industrial companies. Questionnaire forms were sent to an additional 500 companies since returns from the first batch were inadequate. Meanwhile face-to-face surveys were also conducted with the help of Gebze Vocational Collage. The number of questionnaires sent electronically was 1000. We understand that approximately 200

of them did not reach relevant persons/departments. 182 questionnaires were completed and returned electronically. The study took into account 144 electronic questionnaires and 210 face-to-face surveys. The sum of evaluated questionnaires was 354. 313 of the questionnaires were from national companies whilst 41 were from multinational and global companies.

DATA ANALYSIS

Table 1 indicates the presence of predetermined written vision, mission, objective and targets at a national and multinational company level according to questionnaire results. Examining Table 1 we see that 83.4% of national companies and 90.2% of multinational companies express the presence of vision, mission, objective and targets.

Table 1: State of vision, mission, objective and target building at companies

	National Company		MNC		Total	
	Frequency	%	Frequency	%	Frequency	%
There is Vision	13	4,2	3	7,3	16	4,5
There is Mission	1	0,3	0	,0	1	0,3
There is Objective and Targets	15	4,8	0	,0	15	4,2
There is all three	261	83,4	37	90,2	298	84,2
There is Vision + Mission	19	6,0	1	2,4	20	5,7
Vision + Objective and Targets	4	1,3	0	,0	4	1,1
Total	313	100	41	100	354	100

Hypothesis for performed chi-square test were established as follows:

H_0 : The difference between having predetermined written vision, mission, objective and targets at businesses and the company being national or multinational is insignificant.

H_1 : The difference between having predetermined written vision, mission, objective and targets at businesses and the company being national or multinational is significant.

In this context the Chi-square test statistics at a 0.01 significance level is 4.471, with a p value of 0.484. Under these circumstances we can say that the H_0 hypothesis is acceptable.

Table 2 presents results concerning the effective person in vision building within the company.

Hypothesis concerning the effective person in vision building are as follows:

H_0 : The difference between national and multinational companies in terms of the effective person in vision building is insignificant.

H_1 : The difference between national and multinational companies in terms of the effective person in vision building is significant.

Table 2: Who is active in vision building at your company?

	National Company		MNC		Total	
	Frequency	%	Frequency	%	Frequency	%
Boss or Owner	52	16,6	2	4,9	54	15,3
Board of Directors	81	25,9	9	22	90	25,4
CEO	6	1,9	6	14,6	12	12
Managing Director and Vice Directors	20	6,4	3	7,3	23	6,5
Entire Managerial Team	123	39,3	16	39	139	39,3
Outsourced Specialist or Organisation	9	2,9	0	0	9	2,5
Boss + Board of Directors	5	1,6	1	2,4	6	2,5
Boar of Directors + Managerial Team + Outsourced Specialist	10	3,2	2	4,9	12	3,4

Board of Directors + CEO + Vice Managing Director	6	1,9	2	4,9	8	3,4
No reply	1	3	0	0	1	0,3
Total	313		41		354	

In this context the Chi-square test statistics at a 0.01 significance level is 24.008, with a p value of 0.004. Under these circumstances we can say that the H_0 hypothesis is unacceptable, signalling the presence of a significant difference between national and multinational companies in terms of the effective person in vision building. As a matter of fact, looking at Table 2 we see that whilst 16.6% of national companies express the dominance of boss or owner in vision development, this ratio remained only at 4.9% for multinational companies. We determined the ratio of companies expressing the dominance of the CEO in vision building to be 1.9% for national companies and 14.6% for multinational companies.

We asked whether employees were allowed to participate in corporate vision building. We reached the results in Table 3 according to responses. The following hypothesis were established in this context:

H_0 : The difference between national and multinational companies in terms of ensuring employee participation in corporate vision building is insignificant.

H_1 : The difference between national and multinational companies in terms of ensuring employee participation in corporate vision building is significant.

Table 3: Do employees participate in vision building?

	National Company		MNC		Total	
	Frequency	%	Frequency	%	Frequency	%
Employees participate	194	62	30	73,2	224	63,3
Employees do not participate	119	38	11	26,8	130	36,7
Total	313		41		354	

In this context the Chi-square test statistics at a 0.01 significance level is 1.953, with a p value of 0.162. Under these circumstances we can say that the H_0 hypothesis is acceptable, signalling the presence of an insignificant difference between national and multinational companies in terms of ensuring employee participation in corporate vision building. Looking at Table 3 we see that whilst 62% of national companies express the presence of employee participation in corporate vision building, this ratio was 73.2% for multinational companies.

Table 4 was prepared according to responses concerning how employee participation is enabled in vision building at businesses. Respective hypothesis were established as follows:

H_0 : The difference between national and multinational companies in terms of methods of enabling employee participation in vision building is insignificant.

H_1 : The difference between national and multinational companies in terms of methods of enabling employee participation in vision building is significant.

Table 4: How is employee participation enabled in vision building?

	National Company		MNC		Total	
	Frequency	%	Frequency	%	Frequency	%
Through syndicate	6	3	2	6,7	8	3,5
Through employee representatives	35	18	6	20	41	18,3
Through suggestions of appointed employees	61	31,5	7	23,3	68	30,4
Through suggestions of all employees	92	47,5	15	50	107	47,8
Total	194		30		224	

In this context, the Chi-square test statistics at a 0.01 significance level is 1.583 with a p value of 0.663. Under these circumstances we can say that the H_0 hypothesis is acceptable, signalling the presence of an

insignificant difference between national and multinational companies in terms of methods of enabling employee participation in vision building. Looking at Table 4 we see that whilst 3% of national companies indicate the use of a syndicate to enable employee participation in vision building, this ratio rose to 6.7% for multinational companies. According to results, 18% of national companies and 20% of multinational companies said they used employee representatives as a method.

On the other hand 37 out of 41 multinational companies answered the question regarding approaches to vision building. Answers are presented in Table 5.

Table 5: Vision Building at Multinational Companies

Approach to vision building	Frequency	%
Ethnocentric	3	8,1
Polycentric	7	19,0
Regiocentric	2	5,4
Geocentric	25	67,5
Total	37	

According to results, we see that a majority of multinational companies (67.5%) adopt the geocentric approach in vision building. Hence, it would not be wrong to say that vision building is shaped by global trends.

CONCLUSION

Results from the study indicate similarity between national and multinational companies in terms of the presence of vision, mission, objective and targets. The entire managerial team and board of directors are dominant in vision building in both national and multinational companies however, boss or owner ranks third in dominance (16.6%) in national companies. Third in dominance at multinational companies is the CEO (14.6%). We believe that this outcome is due to national companies generally having a “family run business” identity whereby boss-owner tendencies have a direct influence on corporate visions. The reason behind the dominance of CEO in multinational companies is thought to be due to the professionalization of management. Although a little greater in multinational companies, both business models ensure the participation of employees in vision building. Participation in both business models is mainly based on listening to the suggestions of the entire workforce. We can say that the geocentric approach dominates vision building in multinational companies. This is followed by the polycentric approach (19%). Companies adopting the ethnocentric approach stand at 8.1%. The least popular approach in vision building is regiocentric.

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STRATEGIC INTENT, ORGANIZATIONAL AMBIDEXTERITY AND PERFORMANCE: A TEST OF THE MODERATING ROLE OF PERCEIVED ENVIRONMENTAL UNCERTAINTY

Mehmet Şerif Şimşek
Selçuk University

Şevki Özgener
Metin Kaplan
Seher Ulu
Nevsehir University

ABSTRACT

In global hospitality and tourism industry, hotel businesses endeavour more to develop a competitive strategic intent than businesses in other sectors. It is believe that strategic intent plays a considerable role in the formulation and implementation of hotel strategies and in determining performance, but its influence has tended to be neglected in the hospitality management literature. The purpose of this study is to analyze the moderating role of perceived environmental uncertainty in determining the effects of strategic intent and organizational ambidexterity on firm performance for hotel businesses. The results of research indicate that strategic intent and organizational ambidexterity were significantly correlated with firm performance. According to the findings of regression analysis, strategic intent had a positive effect on firm performance. However, organizational ambidexterity had a positive but non-significant effect on firm performance. The findings of this study show that perceived environmental uncertainty moderated the relation between strategic intent and firm performance. Practical implications and directions for the future research were discussed.

Keywords : *Perceived environmental uncertainty, Strategic intent, Organizational ambidexterity and Performance*

INTRODUCTION

The key strategic consideration for hotel businesses is to leverage internal competencies and manage uncertainties in the decision whether or not to collaborate with other hotels in national and international markets. It is expected that in today's turbulent environment, hotel businesses which are capable of developing national and international networking ties to cope with environmental uncertainty, are likely to attain greater success in service and enjoy better performance. In that, environmental analysis is considered an important step in the strategic management process for hotel businesses. If hotel businesses wish to build, sustain or improve their competitive position, they must have the ability to cope with uncertainty in their environment.

So far, few researches have been done on how hotel business managers perceive today's dynamic environment (Harrington and Kendall, 2007). Moreover, little is known about the strategic behavior of hotel businesses in reaction to environmental uncertainty. Particularly, it is likely that in a competitive and uncertain environment, strategic intent and organizational ambidexterity contribute more to an increase in performance than in a less uncertain environment.

In this research therefore it examines the effects of strategic intent and organizational ambidexterity on firm performance for hotel businesses in a turbulent environment.

Perceived Environmental Uncertainty

The concept of environmental uncertainty has been widely discussed in strategic management literature (Milliken, 1987; Brouthers et al. 2002; Freel, 2005). Milliken (1987) defined environmental uncertainty as 'the perceived inability of an organization's key manager or managers accurately assess to the external environment of the organization or the future changes that might occur in that environment'. In other words, Tsamenyi and Mills (2003: 22) defined environmental uncertainty as 'unpredictability in the actions of customers, suppliers, competitors and regulatory groups that comprise the external environment of the business unit'.

Shortly, environmental uncertainty is explained as 'the difficulty in making accurate predictions about the future' (Sahadev, 2008: 183).

Perceived environmental uncertainty (PEU) occurs when decision-makers perceive the environment of their organization as unpredictable (Ondersteijn et al. 2006). PEU can be divided into two kinds of uncertainty: environmental uncertainty and behavioral uncertainty. Environmental uncertainty refers to changes in the external environment that are exogenous and largely unaffected by the business' actions. The changes in the external environment resulted from developments in technology, competition, regulations and other external factors that shift the conditions in which decisions are made. Behavioral uncertainty refers to the inability of managers to predict the actions and plans of potential partners or members within the business. Behavioral uncertainty arises from opportunism and is presented when firms depend on or share decisions with others (Akhter and Robles, 2006: 106).

PEU is usually conceptualized as a multidimensional construct including environmental volatility, environmental munificence, competitive intensity, market turbulence, and environmental hostility (Jekanyika Matanda and Freeman, 2009: 92). PEU results from the inability of individual managers to predict changes in the environment (resulting from changes in technology, markets, and income volatility), due to lack of knowledge necessary to distinguish data needed for decision-making. When environmental uncertainty increases, various types of inter-functional expertise are required, as more diverse skills and knowledge are required to develop solutions and to remain competitive (Jekanyika Matanda and Freeman, 2009: 91). Thus, management consultants use strategic intent and strategic ambidexterity as tools to overcome barriers, manage uncertainty and build competitive advantage in periods of rapid change in global markets.

Perceptions of high levels of environmental uncertainty may lead to a lack of interest in investing for the long term sustainability of the relationship. This may result in greater levels of opportunism and lack of trust (Sahadev, 2008: 183). Environmental uncertainty can be managed as long as firms have the requisite resources. Only those organizations with limited adaptive capacity or resources are negatively affected by environmental uncertainty.

A few researches have identified that perceived environmental uncertainty may a critical determinant of strategic ambidexterity and strategic intent. Moreover, most of previous studies have examined its effect on manufacturing firms. So, in highly uncertain environments where conditions change rapidly, strategic ambidexterity and strategic intent are needed for business' success.

Previous studies stated that the uncertainty of the environment could influence firm performance (Parnell et al. 2000; Bacha, 2010: 30). However, Tsamenyi and Mills (2003) investigated the relationship of perceived environmental uncertainty and organizational culture on budget participation and managerial performance in Ghana. The results found limited support for the hypothesis that environmental factors influence firm performance. Similarly, Choe (2003) argued the effect of environmental uncertainty and strategic applications of IS on firm performance. An excessively low level of strategic applications were decreased a firm' performance in stable environment. However, there are limited numbers of studies on the relations of perceived environmental uncertainty and firm performance for hotel businesses in Turkey.

Strategic Intent

Strategic intent as something different from strategic management is an important distinction for describing the behaviors of firms in an uncertain environment. Strategic management emphasizes mainly the general processes of decision-making in strategy formation. Strategic intent provides direction to these processes. This direction of intent specifically regards a given firm's focus on leveraging resources in its pursuit of strategic advantage over its competitors (Chambers, 1991: 30).

Strategic intent is a useful concept in accounting for purposes and continuity of goals in an organization adapting to internal and external developmental pressures. The managerial role of strategic intent is to go beyond environment-sensitive strategic planning to represent objectives "for which one cannot plan" (Mantere and Silince, 2007: 406-407). Managers should develop a long term 'strategic intent' and 'compete for the future' by becoming 'rule breakers' instead of 'rule takers' (Stoelhorst and Van Raaij, 2004: 467).

Strategic intent is defined as the planned direction and destiny to be pursued by the firm (Landrum, 2008: 127). In other words, strategic intent can be defined as "a [sustained] obsession with winning at all levels of the organization". Strategic intent represents a proactive mode in strategizing, a symbol of the organization's will about the future, which energizes all organizational levels for a collective purpose. Strategic intent reflects the 'corporate context' in which bottom-up business ideas are weighed. It directs the accumulation of necessary competences, giving the intra-organizational evaluation processes a common target, "something to 'aim' for" (Mantere and Silince, 2007: 407).

Strategic intent is crucial for a firm to achieve goals which one cannot be planned. It is important to separate that orientation (strategic intent) from strategic planning or strategies (Mantere and Silince, 2007: 408-409). Strategic intent also includes an active management process to focus the entire organization on the essence of winning (Rui and Yip, 2008: 216), but it is also stable over time while allowing reinterpretation as new opportunities emerge. Similarly, it helps to set a target that deserves personal commitment and effort. Strategic intent allows for a firm to build layers of competitive advantage painstakingly, to accomplish long-term goals. From strategic intent to core competences, firms have been forced by dynamic and intense competitive pressures to re-evaluate almost every aspect of their approach to conduct business.

Strategic intent envisions a desired leadership position and establishes the criterion that the organization will use to chart its progress. Komatsu set out to 'Encircle Caterpillar'. Canon sought to 'Beat Xerox'. Honda strove to become a second Ford—an automotive pioneer. All are expressions of strategic intent (Smith, 1994: 67).

A vision is defined as a set of desired goals and activities. It has connotations of encouraging strong corporate values in the strategy process and so is similar to strategic intent in its emotional effects (Mantere and Silince, 2007: 408-409). It also allows the firm's stakeholders to coordinate their activities to maximize firm value as established by the firm's strategic intent (Beasley et al. 2009: 87). The most striking difference between visions and strategic intents is the degree of collectivity, as many authors ascribe strategic intent as a phenomenon diffused at multiple organizational levels, while vision is a more clearly top management leadership tool, often ascribed to a single visionary leader (Mantere and Silince, 2007: 408-409). Strategic intent implies a particular point of view about the long-term market or competitive position that a firm hopes to build over the coming decade or so. Hence it conveys *a sense of direction*. A strategic intent is differentiated; it implies a competitively unique point of view about the future. It holds out to employees the promise of exploring new competitive territory. Hence, it conveys *a sense of discovery*. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence it implies *a sense of destiny*. The three concepts (direction, discovery and destiny) are the attributes of strategic intent (O'Shannassy, 1999: 17-18).

Unlike an organization's mission, which relates to the organization's values, core purpose and current strategies, strategic intent is about the future outcomes. It is the 'obsession with winning at all levels of the organization', but is greater than solely obsession – it 'captures the essence of winning', is 'stable over time'

and sets a target that ‘deserves personal effort and commitment’, motivating managers and employees throughout the organization (Haugstetter and Cahoon, 2010: 31).

A fundamental expectation is that the firm’s strategic intent should drive both architecture and business performance (Fawcett et al. 1997: 411). To enhance the customers’ prospects for competitive success, firms cannot expect to select appropriate strategic capabilities that will lead to their own long-term competitiveness. Thus, strategic intent guides the firm in its efforts to develop and utilize key resources to achieve desired objectives within uncertain and dynamic environment. However, the researches relevant to the effects of strategic intent and performance are limited in hotel businesses.

Organizational Ambidexterity

Organizational ambidexterity has emerged as a new research paradigm in strategic management theory, yet several issues fundamental to this debate remain controversial.

Ambidexterity is usually defined as the ability of individuals to use both of their hands with equal skill; individuals who are neither “right-handed” nor “left handed.” Moreover, ambidexterity refers to how an organization “wears the hat” of the job it does today while at the same time “wearing the hat” of the job it will do tomorrow (Bodwell and Chermack, 2009: 4).

Organizational ambidexterity is a dynamic capability that creates valuable new configurations of exploratory and exploitative innovation by generating and connecting previously unconnected ideas and knowledge or recombining previously connected knowledge in new ways (Jansen et al. 2009).

Achieving ambidexterity creates paradoxical situations because the short-term efficiency and the control focus of exploitative units are at odds with the long-term experimental focus and decentralized architectures of exploratory units. When differentiating exploratory and exploitative efforts, organizations subsequently need to establish certain integration mechanisms to coordinate and integrate operational capabilities developed at spatially dispersed locations. Hence, to resolve these paradoxical situations, the mobilization, integration, and deployment of operational capabilities at exploratory and exploitative units are a necessary step in appropriating value and achieving ambidexterity (Jansen et al. 2009: 797-811).

Exploration is about search, discovery, autonomy, innovation, embracing variation (O’Reilly III and Tushman, 2008: 189), risk taking, flexibility. Instead of creating reliability, these practices are aimed at the creation of variety. Finding new ways to deal with changing technologies, emerging markets or altered demand require flexibility of organizational routines (Van Olffen, 2006: 6). Exploratory is activities aimed at expanding the organization’s competences beyond its current range by the development of new products or services or by meeting demands of emerging markets or customers. That is, discussion of this strategic orientation usually focuses on issues such as developing innovative products, discovering new technologies, and finding untapped markets. These activities require knowledge that deviates from what is already known (Van Olffen, 2006: 7). The key idea is that by maintaining loose linkages, firms can remain flexible and adapt to a dynamic environment, as well as seize opportunities or avoid distant threats that lie on the market’s periphery (Judge and Blocker, 2008: 918).

Exploitation is about efficiency, increasing productivity, control, certainty, variance reduction (O’Reilly III and Tushman, 2008: 189), execution and implementation. Exploitation enable organizations to focus on their current competences refine their capabilities and leverage the advantages they have. Through exploitation organizations become more capable of and more efficient in their existing practices, but they may also engage in activities oriented at discovering new, deviating practices (Van Olffen, 2006: 6). Through these activities it is aimed at improving efficiency and refinement of skills and build upon the knowledge and competences already present in the organization (Van Olffen, 2006: 7).

Organizational ambidexterity is about doing both (O’Reilly III and Tushman, 2008: 189). Combining exploration and exploitation not only helps organizations to overcome structural inertia that results from

focusing on exploitation, but also refrains them from accelerating exploration without gaining benefits (Jansen et al. 2009: 797-811). Successful organizations maintain an appropriate balance between exploration and exploitation in the face of scarce resources and limited management attention (Venkatraman et al. 2007: 5).

Organizational ambidexterity as a dynamic capability is not itself a source of competitive advantage but facilitates new resource configurations that can offer a competitive advantage (O'Reilly III and Tushman, 2007: 31). Gibson and Birkinshaw (2004) identified a decentralized structure, a common culture and vision, supportive leaders and flexible managers, worker training and trust in relationships with management as the key sources of ambidexterity. Exploring and exploiting at the same time requires that senior management articulates a vision and strategic intent that justifies the ambidextrous form (O'Reilly III and Tushman, 2008: 189-192).

Organizational ambidexterity should be a key driver of business unit performance over the long term. To support these arguments, some studies have suggested that the combination of exploration and exploitation is associated with longer survival, higher sales growth, better financial performance, higher profits and revenue, lower costs in the delivery of products and services, higher customer satisfaction, improved learning and innovation (He and Wong, 2004; Van Olffen, 2006; Venkatraman et al. 2007; O'Reilly III and Tushman, 2007; Sarkees, 2007; Judge and Blocker, 2008). Further, the performance of existing products was higher in ambidextrous organizations (O'Reilly III and Tushman, 2007).

Judge and Blocker (2008) investigated the relationship between organizational capacity for change and strategic ambidexterity. The results showed that a relatively new dynamic capability, organizational capacity for change, is the primary antecedent of strategic ambidexterity and that this relationship is moderated by environmental uncertainty and organizational slack.

Firm Performance

Firm performance has become an important component of empirical research in the field of strategic management. Firm performance, or effectiveness, is a multifaceted phenomenon that is difficult to comprehend and measure (Snow and Hrebiniak, 1980: 318).

The goal approach seeks a definition based upon explicit goals or goals which can be implied from the behaviour of organizational members. The systems resource approach provides a framework to assess firm performance in terms of the key internal and external factors upon which the organization's survival depend on. The constituency approach views the organization as existing to benefit numerous 'constituencies', both internal and external to the organization, with firm performance assessment focused on fulfillment of constituent needs (Dess and Robinson, Jr., 1984: 273).

Generally, the term "performance" brings to the forefront measurements such as costs, profitability, sales growth, capacity utilization, and market share (Avci et al. 2010: 1-3; Leskiewicz Sandvik and Sandvik, 2003: 359). However, performance should not be treated only as a financial concept. Thus, it is suggested that particularly in the service sector, non-financial performance should receive serious consideration so that managers can survey performance in several areas simultaneously to enable efficient strategic decision-making. In addition, some management experts recommend the use of non-financial performance measures based on the fact that hotel businesses are labor intensive and customer-oriented in uncertain environment (Avci et al. 2010: 1-3).

Strategic intent and organizational ambidexterity can lead to superior resources and capabilities becoming positional advantages, which in turn leads to better organizational performance. But little empirical research actually demonstrated the correlation between strategic orientation and firm performance in hotel businesses. Choe (2003) argued the effect of environmental uncertainty and strategic applications of IS on firm performance. He showed that an excessively low level of strategic applications decreased firm performance

in stable environment. Similarly, Venkatraman et al. (2007) undertook the impact of strategic ambidexterity on sales growth. They found that sequential ambidexterity significantly predicted sales growth as main effect, as well as jointly with a set of contingency effects. On the other hand, Avci et al. (2010) discussed the relationship between strategic orientation and performance for tourism firms. The results showed that there was a difference in both financial and non-financial performance based on the strategic orientations followed by tourism firms. Generally, prospectors were found to outperform defenders, whereas analyzers showed a comparable performance to prospectors. But in hotel businesses, the studies associated with strategic intent and firm performance are rather few in number.

Therefore, the research objective of this study is to analyze the moderating role of perceived environmental uncertainty in determining the effects of strategic intent and organizational ambidexterity on firm performance for hotel businesses.

In the light of these findings, the hypotheses have been developed as follows:

H1: Strategic intent is positively related to firm performance.

H2: Organizational ambidexterity is positively related to firm performance.

H3: Perceived environmental uncertainty is negatively related to firm performance.

H4: Perceived environmental uncertainty will moderate the relationship between strategic intent and firm performance.

H5: Perceived environmental uncertainty will moderate the relationship between organizational ambidexterity and firm performance

-Figure 1 about here-

METHODOLOGY

To test the hypotheses developed in the study, data was collected from hotel managers in the province of Nevsehir in Turkey. That is, the sampling consists of managers in hotel businesses licensed by the Tourism Ministry in the Cappadocia Region, Turkey. Questionnaires were distributed to hotel businesses by the interviewers. The questionnaires were sent to all 208 subjects in the sample. 76 questionnaires were returned resulting in a satisfactory response rate of 36.5%.

Firm performance was designated as the dependent variable in this study while strategic intent and organizational ambidexterity were considered as the independent variables. Besides, perceived environmental uncertainty was used as a moderator variable in the relationships between dependent and independent variables.

Environmental uncertainty has been considered as an important variable in the strategic management literature. Environmental uncertainty was measured using the scale adopted by Jekanyika Matanda and Freeman (2009). The scale includes a set of 14 statements that describe together the various dimensions of environmental uncertainty (1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, 5= strongly agree). This scale is reliable (0.92). Notably, the coefficient alpha is larger than 0.70, the threshold generally proposed in the literature (Hair et al., 2006) for the constructs.

Strategic intent was measured with six-item Likert-like scale ranging from 1 “not at all flexible” to 5 “very flexible”, taken from the works of Hamel and Prahalad (1989), Lado (1992), and Wonglimpiyarat (2005). The instrument had reliability (Cronbach’s alpha) of 0.96.

Many studies were used to design a scale of organizational ambidexterity (Gibson and Birkinshaw, 2004; He and Wong, 2004; Jansen et al. 2006). It consisted of 12 items, scored on a 5-point Likert scale with an

agree/disagree continuum (1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, 5= strongly agree). It was used a two-step approach to measure organizational ambidexterity. First, organizational ambidexterity was classified in terms of the dimensions of exploration and exploitation. Second, the multiplicative interaction between exploration and exploitation as a measure of ambidexterity was computed by considering the studies of Nemanich and Vera (2009). The 12-items organizational ambidexterity instrument had reliability (Cronbach's alpha) of 0.88.

As to firm performance, four items the financial performance scale and four items non-financial performance scale adopted from Avci et al. (2010) were used. All performance items assessed the average level of firm performances within the preceding three years, using five-point scales anchored at much worse than competition (=1) and much better than competition (=5). Then, the scale reliability was evaluated by calculating Cronbach's alpha. The coefficient was 0.79 for firm performance.

THE RESULTS

The sample consisted of 76 respondents including 12 CEO, 34 department manager, and 30 division manager. 59.2 percent of the respondents were married and 40.8 percent were single. The male/female ratio of the sample was 63.2% and 36.8%, respectively, and the age ranged from 26 to 40. The executives had a mean age of 35.25 years (standard deviation = 6,65) and a mean hotel tenure of 12.48 years (s.d. = 7,26). 61.8% of those responding had more than 10 years of job experience.

In terms of education levels, 7.9% of participants had graduated from primary school, 30.3% from secondary school and 21.1% from high school. 32.9 % of the participants had a bachelor's degree and 7.9% had a master's degree or higher. Moreover, the executives were employing in a wide range of departments covering front-offices (30.3 percent), storey services (17.1 percent), food and beverage (15.8 percent), accounting (14.5 percent), sales & marketing (17.1 percent) and technical (4.0 percent) in these hotels.

The hotels which responded to the survey included personal hotels (75.0%), hired hotels (3.9%) and franchise hotels (21.1%). The hotels were categorized into three groups, five-star (21.1%), four-star (44.4%) and private hotels licensed by the Tourism Ministry (34%). 65.8% of these hotels had 100 and more room capacity. Respondents included owners (42.1%) and professional managers (57.9%).

Means, standard deviations, correlations and reliabilities of the variables in the study are presented in Table 1. Pearson correlation analysis of the variables extracted and the results indicate that strategic intent ($r=0,551$, $p< 0.01$) and organizational ambidexterity ($r=0,370$, $p< 0.01$) were significantly correlated with firm performance. This provides support for hypotheses **H1** and **H2**. However, perceived environmental uncertainty was found to be negatively and significantly correlated with firm performance ($r= 0,490$, $p< 0.01$). **H3** was supported by the results.

-Table 1 about here-

This study proposed a research framework to test the relationships among the constructs based on perceived environmental uncertainty. Moderated regression analysis was used to determine whether or not perceived environmental uncertainty had a moderator effect on the relationships between strategic intent, organizational ambidexterity and performance. This procedure involved the comparison of three regression models.

Table 2 presents the results of the regression analyses for this study. To examine multicollinearity, we calculated variance inflation factors (VIFs) for each of the regression equations. The maximum VIF within the models was 1.54, which is well below the rule-of-thumb cutoff of 10 (Şimşek et al. 2009). The lowest tolerance value was 0.648, which is far from the common cut-off threshold value of 0.10 (Hair et al. 2006).

-Table 2 about here-

To assess the effect of strategic intent and organizational ambidexterity on performance, a three-step procedure was followed. The baseline model (Model 1) contains the control variables. Model 2 includes the main effect of strategic intent and organizational ambidexterity on firm performance for hotel businesses. Model 3 adds perceived environmental uncertainty as a moderator.

In Model 1, control variables were entered in the analysis. The results in Table 2 suggest that the overall model was insignificant ($R^2=0.039$; $F_{(4,71)} = 0,715$; $p>0.01$). That means that only 3.9% of the variance in firm performance was explained by the control variables.

In Model 2, strategic intent, organizational ambidexterity and perceived environmental uncertainty were entered in the analysis. Model 2 was statistically significant for firm performance ($R^2=0.417$; $F_{(7,68)} = 6,959$; $p<0.01$). As shown in Model 2, the regression coefficients representing the main effects of strategic intent on firm performance are positive and significant ($\beta= 0.320$; $p< 0.01$). That is, strategic intent had a positive effect on firm performance. However, perceived environmental uncertainty was negatively related to firm performance ($\beta= -0.162$; $p< 0.05$). Moreover, organizational ambidexterity had a positive but non-significant effect on firm performance ($\beta= 0.025$; $p> 0.01$). Finally, in model 2, strategic intent, organizational ambidexterity and perceived environmental uncertainty explained additional 37.9 percent of the variance in firm performance.

In Model 3, the interaction effects of independent variables and moderator on firm performance were analyzed. The results showed that Model 3 was significant ($R^2=0.455$; $F_{(9,66)}=6,112$; $p<0.01$). As shown in Model 3, the interaction of strategic intent and perceived environmental uncertainty was negative and significant on firm performance ($\beta= -0.171$; $p< 0.01$), providing support for H4. Perceived environmental uncertainty moderated the relation between strategic intent and firm performance. However, the relationship between organizational ambidexterity and performance became insignificant when moderating variable was added ($\beta= -0.003$; $p > 0.01$). Thus, H5 was not supported. Shortly, perceived environmental uncertainty did not moderate the relationship between organizational ambidexterity and firm performance. The interaction term explained additional 3.7 percent of the variance in firm performance.

CONCLUSION

Through the findings of this study, we contribute to a greater clarity and better understanding of how hotel businesses may effectively pursue exploration and exploitation simultaneously to achieve ambidexterity. Particularly, development of strategic intent scale in the study provides possibly a quite influential finding for the strategic management discipline and a foundation for the future researches.

The originality of this study lies in the fact that it provides an actionable focus on strategic intent and organizational ambidexterity for the hotels managers in their pursuit of a competitive advantage. We conclude that the long-term success of hotel businesses in competitive markets is essentially determined by its strategic intent and organizational ambidexterity. However, it is important to recognize that perceived environmental uncertainty is a predictor of firm performance. Therefore hotel businesses must constantly strive to develop and maintain their core competences in uncertain environments.

The results indicated that strategic intent and organizational ambidexterity were significantly correlated with firm performance. However, perceived environmental uncertainty was found to be negatively and significantly correlated with firm performance. These results are consistent with many studies (He and Wong, 2004; Van Olffen, 2006; Venkatraman et al. 2007; O'Reilly III and Tushman, 2007; Sarkees, 2007; Avci et al. 2010).

According to the results of regression analysis, strategic intent had a positive effect on firm performance. However, organizational ambidexterity had a positive but non-significant effect on firm performance. In this

study, the differences we found are surprising. In contrast to the studies of Tsamenyi and Mills (2003) and Choe (2003), the findings of this study show that perceived environmental uncertainty moderated the relation between strategic intent and firm performance. Shortly, perceived environmental uncertainty is a relevant moderator in the context of the proposed model. Consequently, hotel managers should be used strategic intent and organizational ambidexterity as a tool to manage uncertainty and build competitive advantage in crisis periods. But when organizations effectively do not perceive environmental uncertainty, it is observed that strategic intent and organizational ambidexterity had a limited effect on firm performance. Namely, environmental uncertainty can be managed as long as hotel businesses have the requisite resources. Only hotel businesses with limited adaptive capacity or resources are negatively affected by environmental uncertainty. Furthermore, hotel businesses were not maintained an appropriate balance between exploration and exploitation in the face of scarce resources and limited management attention for this sampling. Thus, organizational ambidexterity did not a positive effect on firm performance.

As with any research, some limitations should be taken into consideration in generalizing the results of this study. First, although the sampling method used in this study was adequately suited to its purpose, the generalizability could be enhanced if future research systematically sampled from more diverse industries. Because, this study has been conducted in hotel businesses in a single-city setting (Nevşehir). Second, we developed on a new scale to assess strategic intent. The reliability of the scale used at the research has not been proven in many different settings/countries. As with any new measure; further tests in additional samples would help to establish our confidence in it.

The scope of this study includes the effects of strategic intent and organizational ambidexterity on performance for hotel businesses. Future research is needed to determine whether transformational leadership and strategic intent influence ambidexterity positively or negatively. Also, it is available to investigate the effect of the strategic posture and organizational ambidexterity on employee satisfaction in different industries.

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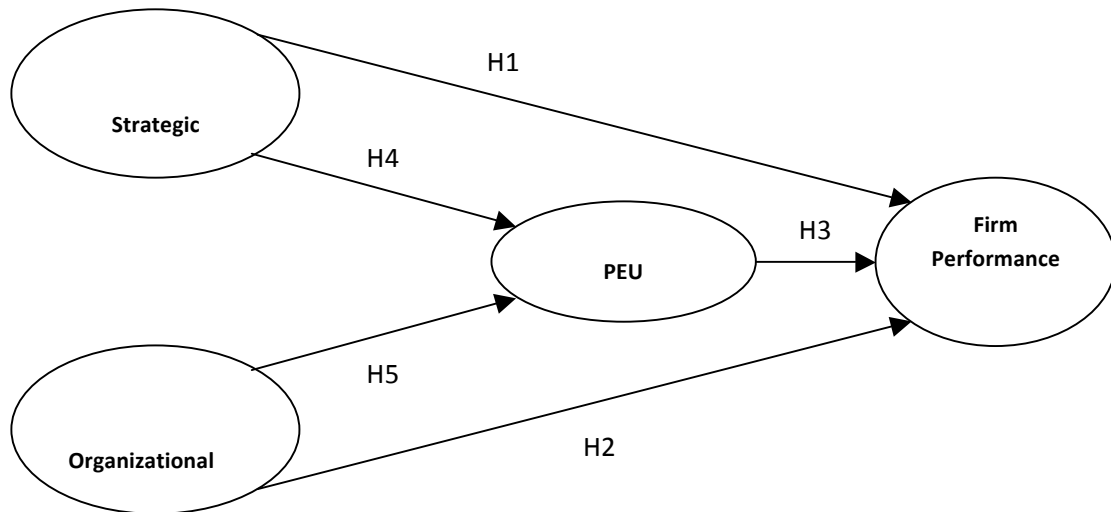


Figure 1: Research Model

Table 1: Descriptive statistics and intercorrelations among study variables

Variables	Mean	Std. Deviation	1	2	3	4	5	6
1. Organizational Ambidexterity	16,30	4,52	(0.88)					
2. Exploration	3,93	0,75	,904(**)	(0.89)				
3. Exploitation	4,09	0,56	,790(**)	,473(**)	(0.82)			
4. Strategic Intent	3,74	0,92	,241(*)	,230(*)	,220	(0.96)		
5. PEU	3,06	0,89	-,325(**)	-,327(**)	-,217	-,214	(0.92)	
6. Firm Performance	3,66	0,65	,370(**)	,392(**)	,218	,551(**)	-,375(**)	(0.79)

** Correlation is significant at the 0.01 level (2-tailed).

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

Table 2: The Results of Regression Analyses: The Effects of Strategic Intent and Organizational Ambidexterity on Firm Performance

Independent variables entered	β	S.E.	t-value	R ²	R ² Change
Model 1 F(4-71)= 0,715				0.039	
Gender	,028	,182	,153		
Marital status	,050	,190	,265		
Education	,091	,068	1,335		
Job experience	-,066	,108	-,610		
Model 2 F(7-68)= 6,959				0.417	0.379
Organizational ambidexterity	,025	,015	1,652		
Strategic intent	,320	,069	4,624**		
PEU	-,162	,073	-2,231*		
Model 3 F(9-66)= 6,112				0.455	0.037
Organizational ambidexterity* PEU	,003	,013	,253		
Strategic Intent * PEU	-,171	,081	-2,106*		
Notes: β indicates unstandardized regression coefficient. *p< 0.05; **p< 0.01					
Dependent variable: Firm Performance					

DEVELOPING STRATEGIC FORESIGHT FOR STRATEGIC TRANSFORMATION

Gary J. Stockport
University of Western Australia, Australia

ABSTRACT

The recent Global Financial Crisis (GFC) including the general global recession has focused attention upon the importance of developing strategic foresight for strategic transformation. This paper develops elements of a conceptual framework with practical implications to help organisations to become better at strategic transformation. Consequently, there is a direct link from this paper to the Conference Theme, 'Searching for strategies out of the global recession'. Data was gathered by collecting in-depth secondary data about two organisations, Amazon.com (Amazon) and GE. These examples provide contrasting case histories about when and how to strategically transform. This paper argues that what senior managers can do is to use both theory and practice to help them build their judgment, foresight and wisdom. Any decision to strategic transform an organisation must be based upon past data, assumptions about the present and future combined (and intertwined) with the continual building up of judgment, foresight and wisdom. Key elements of the conceptual framework include; strategic thinking; strategic scenarios; customer centricity; strategic resources, and bold leadership.

Keywords: strategic foresight, strategic transformation, sigmoid curve, market signals, strategic leadership, Amazon, General Electric

INTRODUCTION

Should organisations have foreseen the Global Financial Crisis (GFC)? Could they have been more proactive in developing strategies to better deal with its consequences? Why is it that organisations are better in hindsight? How can they better develop foresight? These questions are rhetorical in nature but they emphasise the importance of organisations being able to better adapt to their changing strategic context. Volberta and Rutges (1999) argued that most of the strategic management literature was rooted in stability rather than change. Consequently, an important question for organisations to consider was how they can manage for today whilst at the same time prepare for the future (Liebl and Schwarz in press). Vanderwerwe (1995;79) concludes "At some time or another all corporations must go through transformation" and Stockport (articles in press) outlines the strategic transformation of Google and Semco. Pearce and Robbins (2008) added that strategic transformation could even be the essential last step in the process of business turnaround.

LITERATURE REVIEW

Handy (1994) argued that the sigmoid (S-shaped) curve was a useful conceptual model for identifying when the most appropriate time might be for an organisation (and even a person) to strategically transform itself. Handy (1994;24) noted "No matter how wise and benevolent they may be, the leaders of the first curve must be wary about their own futures when their curve begins to die. Only if they can move onto the second curve will they have a continuing life in the organisation. If they cannot join that second curve they should leave, but it requires great foresight..." Andy Groves from Intel (quoted in Vandermerve 1999;79) concludes "There is at least one moment in the history of any company when you have to change dramatically to reach the next level of performance. Miss the moment and you start to decline."

Stockport (2000) discussing the examples of Marks and Spencers and Intel (using the S-shaped curve) noted that organisations tended to be either reactive or proactive to the need for strategic transformation. He concluded that identifying what might be the right time for strategic transformation required considerable judgement and foresight and he developed a Strategic Transformation Framework to help senior managers in this regard.

Koch and Niewenhuizen (2006) argued that there are internal market signals and external market signals which should be pointing to the need for a new strategy. However, they pointed out that an organisation is typically 'confused' about how to interpret these market signals. When discussing internal market signals they noted that an organisation's "Profitability is slipping – and no-one knows precisely why or how to restore it" (2006;147). On the other hand, with external market signals "Shifts are evident in the marketplace, but there's no consensus on how important they are or how the business should react to them" (2006;148).

Nevertheless, Tabrizi (2007), noted that organisations could foresee the need for strategic transformation and Jackson (2008) pointed out that predicting changes in industry structure was essentially a very creative process. Sull (2003;72-73) presented a number of questions within scenarios to help organisations determine whether there was a need to strategically transform. These included:

- Are your current customers demanding change?
- Have your most finicky customers already migrated to new rivals or incumbents who altered their success formula?
- Can you spin a scenario in which the change bankrupts your company?
- Can you picture an alternative scenario in which the change proves irrelevant?
- Of the two scenarios, which disturbs managers more?
- What do the investors or creditors think?
- Has market value shifted toward entrants with a different model?
- Are investors comparing your company unfavourably to such entrants or to traditional adversaries who have already transformed their success formula?

Similarly, Vandermerve (1995;84) put forward a number of activities and exercises which were designed to create 'strategic discomfort' about continuing with the status quo. These were:

- Surveys to highlight / substantiate problems
- Different / creative analyses of data
- Reconfiguring / anticipating new customer segments, trends and demands
- New ways of defining / viewing / mapping competition
- Interpretations of potential competitive moves
- Comparisons of past results and future capabilities

Sull (2009) argues that organisations can compete through organizational agility which he defines as the capacity of an organisation to identify and capture strategic opportunities more quickly than its competitors do. Roberts and Stockport (2009) pointed out that strategically flexible organisations were both able to respond to market signals in both a proactive and a reactive way. Lee, Beamish, Lee and Park (2009) add that an organisation's competences can help it in this process by enabling an organisation to quickly switch its competences from one strategic context to another.

METHODOLOGY

Data was gathered for this paper by collecting in-depth secondary data about 2 organisations, Amazon.com (Amazon) and GE. Amazon, under Jeff Bezos, has had a much shorter history but is still seen as an organisation who has continually transformed itself (Stockport and Street, 2002; Stockport, 2005; Stockport, 2008; Stockport, 2010). GE, on the other hand, is commonly regarded as being effective at managing strategic transformation over a long period of time under different CEOs and contrasting styles of strategic leadership (Bartlett 2006; Bartlett and Wozny, 1999 revised 2005; Nohria, Mayo and Benson, 2007; Ocasio and Joseph, 2008; Thornhill and Mark 2008). Both organisations provide interesting and contrasting examples about strategic transformation.

FINDINGS

Amazon

Amazon – essentially shows an organisation which has continually strategically transformed itself through the roll-out of its global strategy and the development of its resources and strategic capabilities. Amazon has achieved global dominance through the development and use of technology to offer an increasing array of products and services and continually enhancing customer experience.

The vision behind Amazon had progressively changed since it began in 1995 by CEO Jeff Bezos. What began as the goal to become the world's biggest and best online bookstore developed into a store where

customers could buy ‘anything with a capital A’. It also wanted to become the world’s most ‘customer-centric’ company. Bezos added: “Our goal is to be Earth’s most customer-centric company. I will leave it to others to say if we’ve achieved that. But why? The answer is three things. The first is that customer-centric means figuring out what your customers want by asking them, then figuring out how to give it to them, and then giving it to them. That’s the traditional meaning of customer-centric, and we’re focused on it. The second is innovating on behalf of customers, figuring out what they don’t know they want and giving it to them. The third meaning, unique to the internet, is the idea of personalisation: redecorating the store for each and every individual customer. If we have 10.7 million customers... then we should have 10.7 million stores.”

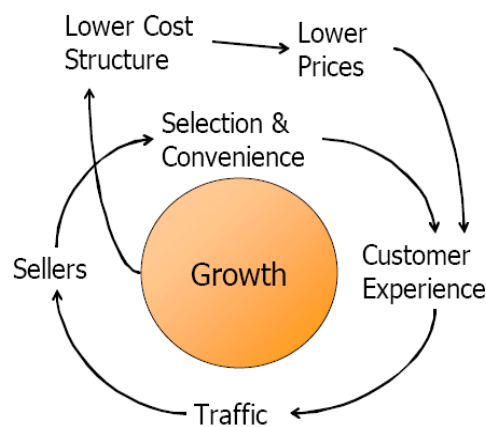
The core of what defined Amazon as reflected in the 1997 Letter to Shareholders, had remained over the years. This letter contained a series of core commitments such as their emphasis on longer term market leadership. Extracts from it are reproduced in the Appendix.

From originally serving just website retail customers, Amazon in 2009 served 3 distinct groups of customers:

- Consumer customers: through their retail websites, Amazon provided a wide range of merchandise, low prices, and convenience to their consumers;
- Seller customers: sellers that sold their products either on Amazon’s websites or on their own brand websites and fulfilled their orders using Amazon’s fulfilment facilities;
- Developer customers: customers that used Amazon Web services which provided access to Amazon’s technology infrastructure that enabled them to create virtually any type of business.

Central to Amazon’s strategy and business model was growth. Figure 1 shows Amazon’s approach of achieving growth through being ‘customer-centric’ and continually improving the customer experience by offering lower prices and wider selection. This in turn fed back to the increasing use of Amazon’s websites (traffic) by customers and sellers, which again fed back to growing resources for innovation for improved customer experience, and so the ‘virtuous’ cycle continued. Amazon’s brand mantra was to relentlessly serve the customer by shaping the customer experience.

Figure 1: Amazon’s Strategy (originally drawn by Jeff Bezos in 2005)



Amazon had built a 3 pillar strategy to guide and reach Bezos’ vision. These pillars were selection, price and convenience, with its foundation on innovation.

- Selection: Amazon offered the widest selection of products, from its vast selection of retail products to Amazon’s software and Cloud Computing offerings;
- Price: Amazon was committed to price leadership and to consistently and continuously offer this with no sacrifice to quality. For example, Amazon offered free shipping offers to customers along with their guarantee of on-time delivery;

- Convenience: Amazon continually strived to 'please' their customers. For example, Amazon dedicated much resources to understanding what their customers wanted by offering customer review and feedback forms on all of their products.

These 3 pillars were supported by Amazon's continual commitment to innovation and investing in the future. Bezos concluded: "There's more to innovation ahead of us than innovation behind us." Underpinning innovation was the emphasis upon technology. Despite the progressive change in their vision, Bezos' typical response about the main difference between conventional retail and his business was "The three most important things in retail are location, location, location. The three most important things for our consumer business are technology, technology, technology. That's what takes the place of real estate in our business."

Amazon believed the continual investment in technological innovation helped Amazon to achieve two complimentary goals. Firstly, it improved efficiency, ultimately lowering operating costs and enabling them to offer lower prices to customers. Secondly, their heavy investment in research and development enabled them to find new ways to improve customer experience. With its advanced technology, Amazon had no need to segment customers based upon the more traditional marketing methods such as demographic or human behaviour. Customer search patterns and purchasing behaviour were tracked almost instantaneously as soon as a customer accessed their website. Furthermore, Amazon's website made intelligent recommendations of what other customers purchased after a new customer found a product they were interested in. In many ways, Amazon had built the ultimate virtual salesperson right at the customer's fingertips, by leveraging off information from millions of customer transactions and online window-shoppers. This competency was very powerful and other organisations had failed to produce similar market data on such a large scale. Amazon's continual emphasis upon technology led to a number of major outcomes between 2007 to early 2009 including Kindle, improving Amazon Web Services, offering digital contents and enhancing accessibility:

Kindle - Amazon developed and marketed an innovative wireless electronic reading device called Amazon Kindle under the Amazon brand.

Amazon Web Services - The most disruptive technological innovations released by Amazon between 2007 – early 2009 were through Amazon Web Services (AWS). AWS products were examples of Cloud Computing, a model whereby IT vendors host hardware and software in their own data centres and make them accessible via the internet. The trend in Cloud Computing has been compared to the development of the electricity network more than a century ago, whereby companies stopped having to produce their own power and instead plugged into a national electric grid. In the same way, individuals and organisations can now connect to a 'cloud' of computing resources to fuel their information and processing needs on the internet. The benefit of this approach was that companies with access to huge economies of scale can sell their hardware or software processing power to users on a 'pay as you use' basis at a far cheaper cost than a user could individually. If the internet community could facilitate this disruptive technology, personal computers as we know them today may become obsolete and products such as Kindle or 'dumb terminals' could take their place.

Digital Contents - Another significant expansion for Amazon between 2007 to early 2009 was in its digital contents offerings. During 2007, Amazon launched a MP3 Music Store, a digital music downloads store.

Amazon's emphasis on technology and innovation enabled it to quickly roll-out its activities across the world. During 2007, it launched a number of new sites that served customers with specific needs. In early 2007, Amazon launched Endless.com which focused on shoe and handbag items. Amazon continuously expanded globally via its international network. After the initial success of Amazon Jewellery, Amazon launched its Jewellery & Watches Store in the UK, Germany, France and Japan. During 2008, Amazon launched its Office Supplies Store, a single shopping destination that offered competitive prices on products for the classroom, home office, small office, corporate office 'and everything in-between'. This new store included a selection of more than 500,000 products from thousands of manufacturers. Amazon also diversified into auto parts, launching its Motorcycle Store as a single shopping destination for motorcycle and parts, accessories and protective gear. The store showcased a selection of more than 300,000 products from over 500 manufacturers, including top brands like Alpine Stars, Fox Racing, Harley Davidson, Suzuki and Tour Master.

Over the 2007 to early 2009 period, strategically aligned acquisitions and alliances remained a key way for Amazon to pursue technology development, applications and extend products or services. These alliances benefited Amazon's partners through, for example, access to capital, management expertise and Amazon's huge customer database. For example, in June 2008, the company acquired Fabric.com, a leading online

store that offered custom measured and cut fabrics, as well as patterns, sewing tools and accessories. This acquisition enabled Fabric.com to further expand its selection of fabrics and accessories while enabling Amazon.com to offer its customers a wider variety of products in the sewing, craft and hobby segment. In October 2008, Amazon acquired Reflexive Entertainment, a PC casual game distributor and developer. Amazon.com also completed its acquisition of AbeBooks, an online marketplace for books, with over 110 million primarily used, rare and out-of-print books listed for sale by thousands of independent booksellers from around the world.

General Electric (GE)

GE - essentially shows an organisation that has been effective at managing strategic transformation over a much long period of time (compared with Amazon) under different CEOs and contrasting styles of strategic leadership.

A most interesting period in the history of GE was at the time of change in leadership from Reg Jones from Jack Welch. Under Reg Jones GE was seen as a Strategic Planning organisation whether at the level of the 43 Strategic Business Units (SBUs) or the 6 Sectors. Ocasio and Joseph (2008;262) pointed out that 'What was fundamentally different under Welch was the focus on corporate initiatives rather than SBU or Sector plans as a centre of strategic planning attention.'

Shortly after Welch took over, he tried to quickly build a Strategic (stretching) Thinking organisation through, for example, setting a new Vision for each of the business units i.e. to either be #1 or #2 within their competitive space or fix, close or sell. Welch conceptualised GE through drawing a 3 circle concept to represent GE comprising core, high technology and services business units. Welch also realised "You can't set an overall theme or a single strategy for a corporation as broad as GE." He moved his Business Heads to real-time strategy and each had to compile their 5 page strategy playbooks which comprised their:

- Current market dynamics
- Rival's key recent activities
- GE's business's response to these activities
- The greatest competitive threat that faced them over the next 3 years
- GE's business's planned response

Jack Welch used a number of corporate initiatives such as Work Out and Best Practices to help GE staff to brainstorm possible solutions for the strategic issues and challenges facing their business units. Furthermore, under Welch, GE's leaders were developed and rated not only on their performance against quantifiable targets but also on the extent to which they 'lived' the GE values. Welch concluded 'In our view, leaders, whether on the shop floor or at the top of our business, can be characterised in at least four ways. The first is one who delivers on commitments – financial or otherwise – and shares the values of our company. His or her future is an easy call. Onward and upward. The second type of leader is one who does not meet commitments and does not share our values. Not a pleasant call, but equally easy. The third is one who misses commitments but shares the values. He or she usually get a second chance, preferably in a different environment. Then there's the fourth type – the most difficult for many to deal with. That leader delivers on commitments, makes all the numbers, but doesn't share the values we must have.'

Under Welch, GE's profits from services increased from 16.4% in 1980 to nearly 60% in 1995. Furthermore, between 1991-1995, operating margin improved from 8.92% to 14.4%. The importance of GE developing a Strategic Thinking organisation can be seen from 9/11 happening just 4 days after Jeff Immelt had taken over the reins from Welch.

DEVELOPING A CONCEPTUAL FRAMEWORK

There is never one right answer or solution in strategy. In reality, it is extremely difficult (if not impossible) to determine when is the most appropriate time to strategically transform. Indeed, the Amazon and GE examples provide contrasting examples as the organisations operate in very different strategic contexts. Therefore, any conceptual framework designed to help organisations must consist of a number of generic elements. The usefulness and relevance of each of these elements must be assessed by organisations on a case-by-case basis. This paper argues that the most important elements include:

- Strategic Thinking – this involves continually spending time thinking creatively about the present and the future. Continually question your assumptions about your existing and future market space as well as your competitive positioning within it. Vandermerve (1995;84-85) concludes 'The object

is to challenge people to think about how they think, the assumptions they consequently make, and the impact their behaviour and actions have / will have on the firm's ability to sustain its competitiveness.”

- Strategic Scenarios - use strategic thinking to help develop worst case and best scenarios for your business. In reality, how many organisations had developed scenarios for the GFC happening? Perhaps, even more importantly, for thinking through strategies within the GFC.
- Customer centricity – the Amazon example shows that continual strategic transformation is based upon enhancing customer experience through continual innovation. How are you continually enhancing your customer's experience? Does your business model have your customers in its centre?
- Strategic Resources – clearly, Amazon has leveraged off its resources and strategic capabilities to roll-out its products and services across the world. Technology has enabled Amazon to be more strategically flexible. What are your strategic resources and how are you building them? Are they helping to roll-out your products and / or services?
- Bold Leadership – both Jeff Bezos and Jack Welch were bold and decisive leaders. Welch used a stretch Vision to ‘push’ GE to strategically transform. What is your vision? How bold are you?

CONCLUSION

Strategy is an art rather than a science. There is never one right answer or solution when choosing a strategy. In reality, it is extremely difficult (if not impossible) to determine when is the most appropriate time for an organisation to strategically transform. It seems that both Amazon and GE were continually strategically transforming themselves over different strategic contexts. What senior managers within any organisation can do though is to use both theory and practice to help them build their judgment, foresight and wisdom. Any decision to strategic transform an organisation must be based upon past data, assumptions about the present and future combined (and intertwined) with the continual building up of judgment, foresight and wisdom. However, the strategic risk around trying to identify the right (or any) time to strategically transform might be mitigated through an organisation developing a customer centric business model based upon continual innovation. Having a business model which is embedded with strategic resources and capabilities may also help an organisation to be strategically flexible in both a proactive and a reactive way. It is true, as the Amazon example shows, that an organisation should create in a proactive way its own future. However, it should also be reactive to unforeseen events such as the GFL. Having both will help an organisation search for strategies through any global recession (or, for that matter, any strategic context).

APPENDIX

EXTRACT OF 1997 AMAZON LETTER TO SHAREHOLDERS REPRINTED IN THE 2002 AND SUBSEQUENT ANNUAL REPORTS

1997 LETTER TO SHAREHOLDERS

From the 6th Paragraph:

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers
- We will continue to make investment decisions in light of long-term market leadership
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimising the appearance of our GAAP accounting and maximising the present value of future cash flows, we'll take the cash flows.

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ORGANIZATIONAL CHANGE FOR THE ENVIRONMENTALLY SUSTAINABLE AIRPORT MANAGEMENT

Vildan DURMAZ
Anadolu University, Turkey

ABSTRACT

Air transportation industry is a globally growing industry. As an inseparable part of this industry, airport management is also becoming more crucial issue to be dealt with. Airports offer economic and social benefits to the society, but also environmental impacts of airport operations are increasing due to high traffic growth. While airport capacity is increasing, airport operators are being responsible for mitigating environmental constraints. Today to implement airport environmental management system is seen as a critical way of solution. To ensure effective implementation of this system, an organizational change with definite roles, responsibilities and structure are needed. This study illustrates a way of organizational response to market forces and national regulations guiding the achievement of sustainable airports by determining the structure and the roles in an airport organization.

Key Words: *Airport management, sustainability, organizational change*

INTRODUCTION

Today's business environment produces change in the workplace more suddenly and frequently than ever before. The ability to adopt the changing environment is a key for organizational survival (FNL, 2009). Explaining how and why organizations change has been a central and persistent theme among scholars in public administration, sociology, psychology, and other social science disciplines. Many researchers have examined the organizational change theories; organizational and environmental factors; capacity of organizations to readily and successfully change (Kasten, 2006). Competitive pressures caused by globalization, deregulation, and discontinues technological changes seem to have forces many organizations into considering radical change as a way of surviving and growing (Huy, 2002). Although much research has been done on organizational change, little has been done on changing organization to reach environmentally sustainable airport management.

ORGANIZATIONAL CHANGE

Every organization needs to change to survive in a developing and competitive environment.

In the past, managers aimed for success in a relatively stable and predictable world. However, in the hyper turbulent environment of the 21st century, managers are confronting an accelerating rate of change. They face constant innovation in computing and information technology and a chaotic world of changing markets and consumer lifestyles. Today's learning organization must be able to transform and renew to meet these changing forces (Oswick et.al., 2005)

Organizational change can simply be defined as *new ways of organizing and working* (Dawson, 2002). The concept of organizational change is in regard to organization-wide change might include a change in mission, restructuring operations (e.g., restructuring to self-managed teams, layoffs, etc.), new technologies, mergers, major collaborations, "rightsizing", new programs such as Environmental Management System, Total Quality Management, re-engineering, etc. (McNamara, 2009).

As a growing area of study, organizational change consists of elements both within and outside an organization. Some of the main *external factors* are; government laws and regulations (world agreements and

national policies on pollution and the environment), globalization of markets and the internationalization of business (the need to accommodate new competitive pressures both in the home and overseas), major political and social events (for example, September 11), advances in technology (new generation aircraft), organizational growth and expansion (increasing air travel demand causes the need for increasing capacity and expansions). Four *internal triggers* to change that are generally identified as; technology (computerization of management accounting, scheduling, and information systems), primary task (for example, in shifting away from the main service of a company into a new major field of core business), people (development of new human resource management or training programmes), and administrative structure (restructuring authority relationship and responsibilities) (Dawson, 2002).

Change management becomes increasingly important for organizations in an environment where competition and globalization of markets are ever intensifying. It could be argued that many organizations face a problem situation in which they either “change or die” (Cao & McHugh, 2005). Changing could have two meanings; first the changes to be managed lie within and are controlled by the organization. The second, is the response to changes over which the organization exercises little or no control (e.g., legislation, social and political upheaval, the actions of competitors, shifting economic tides and currents, and so on) (Nickols, 2007).

During the last decade, researchers concerned with organizations and the natural environment have investigated why firms respond to ecological issues. Several studies have identified motives for corporate greening such as regulatory compliance, competitive advantage, stake pressures, ethical concerns, critical events and top management initiative (Bansal & Roth, 2000).

SUSTAINABLE AIRPORT MANAGEMENT

Growing travel demands have resulted in many airports reaching capacity, leading them to initiate expansion plans. It is, however, becoming increasingly difficult to secure planning approval for new infrastructure airports because of the many conflicts with the requirements of environmental regulators and concerns of local residents. Growth in airports means more pollution and energy consumption, leading to greater operating costs and new emerging capacity threats. Hence, it is necessary to look for new measures to reduce the environmental impacts and improve energy efficiency for future developments (Avail Corporation, 2008).

Congestions, attributed to airport capacity constraints, result in extra energy consumption and generate unnecessary increases in aircraft emissions. Expansion is often fraught with additional costs such as relocation compensation, environmental degradation and land limitations etc. Hence, apart from meeting future growth in air traffic, good long term planning is necessary to minimize the impact and costs of current and future expansions, especially on the environment. Thus, cost efficiency and addressing environmental needs share a common platform where strong correlation amongst the two entails that success in either goals is not mutually-exclusive, but rather, is mutually reinforcing (CAI, 2008).

Sustainable airport development is an exercise in balancing the demands of the varied strands of sustainability – i.e. economic, social, environmental and ecological. It falls within the overall concept of sustainable transport, can be defined as ‘satisfying current transport and mobility needs without compromising the ability of future generations to meet these needs’. It is a concept that broadly applies to all areas of effectively running an airport – including finance, operations, human resources, community and investor relations, the environment *et cetera*. To attain its goals, sustainability as applied to transport has to meet the following basic conditions: (1) the rates of use of renewable resources not exceeding their rates of generation; (2) the rates of use of non-renewable resources not exceeding the rate at which sustainable renewable substitutes are developed and (3) the rates of pollution emission not exceeding the assimilative capacity of the environment (Amaeshi & Crane, 2006).

Airport sustainability practice is a broad term that encompasses a wide variety of practices applicable to the management of airports. Such as: (ACRP, 2008)

- Protection of the environment, including conservation of natural resources.
- Social progress that recognizes the needs of all stakeholders.
- Maintenance of high and stable levels of economic growth and employment.

The growth of air travel and the consequential need for expansion of many airports, together with heightened press and public awareness of environmental issues mean that the aviation sector is under heightened scrutiny; day-to-day activities as well as more ambitious projects often become high profile. However, the industry has proactively responded through individual activities as well as through the development of the

sustainable aviation initiative, which is an industry endorsed comprehensive program to reduce aviation's negative impacts (AOA, 2006).

Airport operators around the world share the same business goals – to provide a safe, secure and sustainable operational efficient environment. On the one hand they want the capability to detect and respond to threats more quickly; to mitigate risk. On the other, they want to drive productivity improvement and reduce costs. Regardless of location and size, airport operators share the same business agenda - how to do more with fewer resources? (HAS, 2007)

Airports are now aware of the importance of being environmentally friendly. The major forces driving the environmental programmes at airports can be divided into three categories –*community*, *government* and *internal*. And although all are very different, none can really be viewed without taking into account the context of the others and different pressures tend to act on different environmental issues (Oh, 2008).

Neighbouring communities: In some regions, communities and society at large can have a very keen sensitivity to environmental issues and may take a proactive stance against developments perceived to make a significant contribution to an environmental issue. Such environmental pressure on an airport operator is usually most prevalent when planning permission is required for infrastructure development, such as a new terminal or runway. Recent developments, such as anti-climate change protesters may adversely affect airport operations (ACI, 2009).

Aircraft noise when it comes to environmental pressure from the community; it remains the primary concern for most people living near airports in all regions of the world. Most airports have dedicated call lines for noise complaints and many have dedicated staff and sophisticated noise management schemes. The community is an important stakeholder and a level of partnership must be fostered on an on-going basis. Internet tools were also developed to allow residents to examine flight patterns and noise levels in fine detail.

The importance of neighbourhood and properly informed community are more likely to take into account the benefits of aviation when it comes to assessing aviation infrastructure proposals (Oh, 2008).

Government pressure: Mandatory requirements and other regulation can take a variety of forms from international agreements and national legislation to conditions attached to local planning permission permits. At the time of writing, regulations in many jurisdictions are evolving and substantial development should be expected in upcoming years. A range of regulatory requirements mandates an airport operator to tailor the airport's program according to international, national and sometimes local requirements (ACI, 2009).

As regulators, governments often target airports for environmental effects that are not apparent to the public. Pollution of the air, water and soil are generally in the forefront of concern and are subject to standards and laws on local air quality and water and soil contamination. Governments can require that airports demonstrate compliance with local pollution limits, impose penalties for non-compliance and require the implementation of mitigation programmes (Oh, 2008).

Internal pressure: Airports operating under a responsible business model also set their own environmental targets and strive to achieve them. Saving energy and the associated emissions can be a direct cost saving and the implementation of smart building technology might mean reductions in whole-life-cycle costs. In many cases there is a strong economic case for using environmentally friendly technologies. Wildlife mitigation and water management programmes, equipment modernisation and habitat land-care work can require significant spending without financial returns. These may be needed as a result of government requirements or as environmental conditions attached to a planning consent, but in today's environmentally conscious world, an ever-increasing number of airports are volunteering such mitigation programmes as an integral part of a project proposal (Oh, 2008).

RESEARCH

The goal of this paper is to make airport operators to understand the role of air transportation in a sustainable society. This paper could be a guide to the achievement of environmentally sustainable development at air transportation by setting a standard for airports in relation to environmental issues; stimulating further improvements in environmental performance by determining the roles and responsibilities in an airport

organization. The aviation sector has been relatively free of major environmentally driven regulation, in part because the sector is considered a key contributor to driving the global economy and the only mode of rapid trans-national travel on offer to customers. Projected growth in air travel and the associated environmental impacts mean that policy makers are turning their attention to the aviation sector (AOA, 2006).

In this study, data were collected via semi-structured interview with the responsible person at State Airport Authority and the İstanbul, Atatürk Airport executive. Questions were try to evaluate how much the airport operators aware the changing world needed organizational adaptation and to illustrates the structure of organizational change for environmentally sustainable airport either mandated by legislation or market forces.

Management of Turkish airports and mission of regulation and control of Turkish airspace are performed by General Directorate of State Airports Authority (DHMI). DHMI that has to perform its undertaken tasks according to international civil aviation rules and standards is in this sense a member of International Civil Aviation Organization (ICAO), which was launched according to Civil Aviation Agreement that entered into force to ensure safety of life and property at international aviation and to provide regular economic working and progress (DHMI, 2010).

Directorate General of State Airports Authority (DHMI) provides necessary terminal and passenger services to about 35 million domestic and international flights passengers preferring airway for their travels, and air traffic services to local airline companies as well as more than 361 foreign commercial airline companies. As part of air navigation and airport management services by General Directorate of State Airports Authority (DHMI), traffic of airplanes and passengers, which are offered service, has increased significantly in recent years. Especially, there has been significant progress at international flight airplane and passenger traffic of the international airports. DHMI operates 40 airports, as seen in Exhibit 1, İstanbul/Ataturk Airport is among the leading airports of Europe due to increase in the international traffic (DHMI, 2010).

EXHIBIT 1 Airports Operated by DHMI



Source: www.dhmi.gov.tr

The research results show that, airports under the control of DHMI does aware of the importance of to be environmentally sustainable. However, today they focus on economic prosperity, quality improvement; in the future they are planning to identify environmental sustainability and corporate social responsibility practices.

As environmental issues are voluntary and airports have monopolistic power in their region, internal factors are not encourage the airport operators to change their organizations structure focusing on environmental practices. If they are affected to change by internal factors the changes can be under the control of the organization. The external factors, especially government regulations, may force the airport operators to the organizational change for the environmental performance.

Airport operators do not have a department specifically responsible for the environmental programs. Aircraft noise, wildlife protection, water and soil resources protection issues are accomplished under the different departments' responsibilities. The implementation of sustainability practices at airports is needed to be determined for each operation and given under the responsibility of a department with specialized personnel.

The answer for the question of the reasons behind the no/slow implementation of environmentally sustainable practices are given as; first lack of funding, then lack of management support and the lack of trained personnel. As a result of this situation the organization does not train its staff and tenants yet. Additionally, they do not have environmental (annual) report for the airport operations' environmental performance.

It is found that the regulatory adoption is the key factor for the organizational change at airports for the environmental performance implementation.

CONCLUSION

The global trend of privatization and commercialization rises the growing awareness among airports of the concept of sustainable development with environmental programs.

It is found that organizational response to environmental impacts of the airport operations including the market forces on organizational change mandated by national /international regulations. Organizational change driven by regulatory agencies is relatively easy to accomplish because of the direct effects of policies on organizations. Organizational resistance to change may be caused by poorly planned implementation of change initiatives, funding barriers, lack of staff, lack of environmental culture, time and technology.

For the future, not only regulatory forces but also global issues, community/stakeholder pressures, ethical concerns and top management initiatives will be the motives for organizational change with responsible roles at appropriate departments. When the airport operators have a department with overall responsibility for environmental sustainability they will have environmental manager, environmental program, environmental culture, environmental training program, environmental reports to the stakeholders and research and development contributions. These changes are essence for the environmentally sustainable airport management.

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STRATEGIES TO RESPOND TO CHANGE: AN EXPLORATORY STUDY

**Bella Butler,
Carolyn Dickie,
Marita Naudé,**

Curtin University of Technology, Australia

ABSTRACT

In this paper, focused on Western Australian organizations affected by the global financial crisis and their responses to the changing environment, there are significant practical and theoretical outcomes from an exploratory study. Theoretically, it has identified a deeper understanding of how organizations respond to, and manage, change in times of uncertainty; it complements existing literature by extending discussions about decision-making, re-allocation of resources, communication strategies and management of concerns and attitudes of employees within specific workplace contexts. Similarly, it contributes to extant literature on the change process and, potentially, assists in the development of a framework to inform the completion of successful change events. Practically, it is significant that participating organizations receive aggregated data that help identify elements of successful change practices that can be implemented to assist managers. The paper comprises two parts; the first highlights relevant literature which provides the context for subsequent discussion and in the second part the research methodology, findings and overall conclusions are discussed.

INTRODUCTION

The purpose in this paper is to explore the role of dynamic capabilities of firms in their ability to respond to environmental turbulence so as to sustain a competitive advantage. The study began with investigation of the role of dynamic capabilities in assisting firms to deal with external complexity and uncertainty. It was continued by exploring the role of learning approaches and, in particular, the ability of firms to develop new capabilities and acquire resources in making effective responses to environmental pressures for change. Consequently, in the paper the approach to organisational learning used by a large public sector organisation in a South-East Asian country was examined. Finally, conclusions were suggested as a result of evidence from the selected case study on how environmental responsiveness of firms can be achieved by ongoing learning and training, consultancy and collaboration with key stakeholders, thereby co-creating services for major customers, promoting customers' involvement and fostering knowledge exchange.

SEARCHING FOR STRATEGIES TO RESPOND TO CHANGE

Nowadays corporations are challenged by dynamic environments with a rapid speed of changes, burgeoning complexity and increased uncertainty. Firms must be able to cope with unplanned situations which cannot be predicted in advance. As Tsoukas (1996, p.22) describes it, "firms are faced with radical uncertainty: they do not know, they cannot know, what they need to know". Hence, organizations are engaged in discovering the unknowable and their strategy has to assist them in this process in order to enable their firms to manage crises.

Management scholars are trying to understand how companies cope with environmental changes, what do firms learn from the changing environment and how the environment affects the firms' learning processes (Hitt et al., 1998; Hong, Kianto & Kyläheiko, 2008; Minzberg, 1994; Powel, 1990; Stacy, 1991). Extant studies have shown that turbulent environments do not remain in the same state long enough for an organization to be able to find a favourable competitive position and exploit it (Eisenhardt & Brown, 1998; Fines, 1998). The limited timeframe challenges firms to respond quickly and with resilience to external changes. As Hamel and Valikangas (2003, p.53) assert, "in a turbulent age, the only dependable advantage is

a superior capacity for reinventing your business model before circumstances force you to. Achieving resilience is not easy". This view is supported by Eisenhardt (1998) who believes that to survive in such a fast-paced environment, firms must embed flexibility into their strategic actions. Undoubtedly, flexibility in resource deployment may explain why some firms move into new niches (Eisenhardt & Martin, 2000). In addition, flexibility in response actions enables firms to develop and sustain their own competitive advantage, as well as erode the advantages of competitors (Eisenhardt, 1998; Young et al., 1996). Strategic flexibility also refers to the ability of organisations "to jump from one opportunity to the next, going with the flow of the market" (Cunha 2004, p.275). Consequently, "turbulent environments call for organisations to be able to detect and create new opportunities and then select those that are worthy of actual resource allocation in order to be exploited for the firm's benefit" (Cunha 2004, p.278) and the ability of firms to benefit from new opportunities requires them to develop new resources and dynamic capabilities over time rather than protect their unique resources.

The dynamic resource-based view of the firm and dynamic capabilities

The resource-based view (RBV) of the firm emphasises that the competitive advantage of firms is based on their ability to possess valuable, rare, costly-to-imitate and non-substitutable resources and capabilities (Barney, 1986; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). Understanding this version of 'competitive advantage' promotes the deployment and protection of unique resources rather than the need for resources and competencies to progress over time (McEvily, Eisenhardt & Prescott 2004; Døving & Gooderham 2008). Rapid, unpredictable environmental changes and market complexities require firms to accumulate competitive advantage through a knowledge learning process able to respond rapidly to such dynamics. Therefore, the need to respond to the transforming environment is related to the view of strategic ambidexterity (Dos 2007; Judge & Blocker 2008).

There is an extensive body of literature on the implications of dynamic capabilities and accumulation processes (Bierly & Chakrabarti 1996; Eisenhardt & Martin 2000; Luo 2000; Savory 2006; Teece, Pisano & Shuen, 1997; Tripsas 1997). Dynamic capabilities of firms are related to process, position and path (Liu, 2005). Teece, Pisano and Shuen (1997) stress that firms need to pay closer attention to the paths of behaviours and activities, and depend on paths of influence as possible future orientations. Boisot (2007) continues by pointing at future orientations of a capability as "a strategic skill in the application and integration of competences". This view is supported by Savory (2006, p.1055) who stressed that "competences are potential components of higher level capability" and capabilities are built around groups of competences.

Savory (2006) distinguished among the terms resource, competence and capability. He defined resources as factors that are owned and controlled by the organisation or available through alliances and other external relationships, whereas competence is "the ability to use the resources to an acceptable level of performance towards a desirable purpose" (Savory 2006, p.1055). Further, he defined capabilities as "the ability to operate a specific configuration of an organisation's set of resources" (ibid.) and dynamic capabilities as "the ability to reconfigure both the use and coordination of a specific configuration and the development of new configurations of resources, according to changes in the organisation's environment and strategic direction" (ibid.).

Previously, Teece, Pisano and Shuen (1997, p.516) defined dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environment". This argument was developed further by Eisenhardt and Martin (2000, p.1106) who stressed that the "value [of dynamic capabilities] for competitive advantage lies in the resource configuration, not in the capabilities themselves." Lansiti and Clark (1994) added to the early understanding of dynamic capability by referring to it as the firms' ability to regenerate its knowledge base (cited in Døving & Gooderham 2008). Eisenhardt and Martin (2000) emphasised that dynamic capabilities consist of specific strategic and organisational processes that transfer resources into new competencies and that renew old ones; furthermore, they stress the role of dynamic capabilities as "the organisational and strategic routines by which firms achieve new resource configuration as markets emerge, collude, split, evolve and die" (Eisenhardt & Martin 2000, p.1107).

Winter (2000) notes alternative differences between dynamic capabilities; e.g., those indicated by routines sometimes can be invisible and unknown to the management, whereas control levers and deliberate outcomes of other dynamic capabilities are well-known. Døving and Gooderham (2008, p.845) refer to dynamic

capabilities “as enduring routines, systems, and processes that are visible, known, and managerially intended as a means to achieving new resource configuration”.

Jansson (2007) argues that the turning of organisational routines into organisational capabilities means that there is an expectation for organizations, managers and employees to act, make decisions and respond to the environment in a regular fashion. The word ‘routine’ is an expression of repeated behaviour; it means certain behaviour has been established, and the probability is high that it will be repeated in future. The reason for this is that routines contain codes for replicated behaviour, so that a routine through its code expresses an ability to behave in a certain way. An example of such a code is a thought style in the form of shared perceptions of daily practices. Thus, an organisational routine is either a capability to act repeatedly in a certain way, or a capacity to make certain decisions repeatedly based on specific knowledge (know-how) and in accordance with a certain style thereby confirming the basic code behind the behaviour. It is argued, therefore, that organisational routines that lead to competitive advantages in markets by creating customer value can be defined as a social organisational capability.

Dynamic capabilities and organisational learning

According to Leonard (1995), technological competences and capabilities of an organization are related to dynamic capabilities and consist of four interrelated ‘key innovation activities’: viz., problem solving, implementing and integrating, experimenting, and importing knowledge from outside the organisation. Savory (2006, p.1058-9) argues that “for many innovations the key process is not discovery of new knowledge but the use and modification of existing knowledge.” Thus, knowledge may exist within the organization or may be acquired from the outside of it. Further, Savory (2006, p.1059) emphasizes the role of social dimensions of dynamic capabilities, whereby the “social dimension means that learning is a more complex process than individual learning ... which can be a social activity, particularly with respect to tacit knowledge”. In the current study, it is argued that the learning of new knowledge and rediscovery of existing knowledge is happening in social networks.

From an industrial network perspective, interacting with others is the most fundamental activity of a company. Interaction among firms creates awareness of the rules, routines and procedures that actors should follow in order to learn from each other and the market (Dyer & Wujin 2000; Gulati et al. 2000; Huemer 2004). The key research on the ability of firms to integrate in strategic business nets - *Managing Strategic Nets: A Capability Perspective* - was published by Möller and Svahn (2003), who identified the characteristics of the task organisations try to achieve through forming a specific strategic net; they defined strategic nets as “intentional structures that firms try to design deliberately for specific purposes” (Möller & Svahn 2003, p.213). They continued by stating that “many strategic nets may also involve, at least temporarily, governmental organisations and university based research institutes” [and that the term ‘net’ is used to an intentional] “restricted group of actors” (Möller & Svahn 2003, p.213).

Following the brief discussion of previous literature and for the purpose of this paper, the authors have accepted the following assumptions:

Under uncertainty organizations reconsider their traditional way of doing business and challenge their business model.

Uncertainty of the economic environment fosters organizational learning and creates favourable conditions for developing new capabilities by organisations.

Under uncertainty, organisations re-create their knowledge base and develop new capabilities by collaborating intentionally created “safety nets” – strategic nets.

From the assumptions, it was evident that organizations need to implement specific strategies to overcome and/or at least manage the impact and effects of changes in the business environment. Indeed, global financial crisis and economic uncertainty which followed after the crisis placed many organisations in the situation of re-assessment of their strategies and business models. Some business partners and actors of business nets were affected more than the others and were unable to survive. As opposite, those who survived managed to identify new opportunities in a new –after the crisis- business environment, for example, an increased demand on higher quality products and decreased demand on a wider range of products;

preparedness of contractors to negotiate decreased profit margin in order to maintain their customer base; higher involvement of customers in making specific requirements with regards to the ordered products etc.

On the basis of this logic, a set of research questions arose for the authors; these included:

How has the global financial crisis affected participating organizations?

What changes have organizations made in response to the global financial crisis?

How do participating organizations deal with employee emotions during times of uncertainty and change?

Consequently, in order to gain insight into the research questions, the main overall aim in this exploratory study was to develop a greater understanding of the dynamic capabilities of organizations; capabilities which firms develop in response to the external environment and, generally, lead to a smoother reconfiguration of an organization's structure and resources (including human resources).

METHODOLOGY

A case study design was selected for the study because the researchers aimed to gain an in-depth insight and understanding of the way that the changing environment affected organizations and their response to these changes within the context of a once-only case within a particular context and time as a starting point. The case study method had the value of enabling the authors to explore the content under study and, as argued by Yin (1984), retain the holistic characteristics of real-life events in fields such as organizational and managerial processes. He notes that while the results are not generalizable to populations, the case study compares to an experiment, where what is generalizable are the theoretical propositions.

Purposeful sampling (Creswell 2003, p.27; Creswell 1998, p.49) was used to select participants able to understand the overall aim of the study, its research questions and have experience of the research topic. Participants were invited through their association with the Change Management Institute in Western Australia, with various business managers and directors of organizations acting as contact persons. Participants were employees involved in, or impacted by, the strategic or implementation phases of the change process within their organization. A group of ten professionals formed the participants of the case study.

The current study, implemented within a context of discovery to gain evidence, used a phenomenological approach similar to that of Giorgi and Giorgi (2003); a method that has used an average sample size of 8.3 cases across seventy-six published studies (Russell 2006). Therefore, the use of ten purposefully selected cases was considered appropriate.

Within the case study research framework, a survey containing different sections was used as a collection tool. In Section A, biographical data such as gender, age and experience was collected through a range of closed questions to provide a context for the analysis and discussion of the findings. A combination of closed and open-ended questions was used in Section B; open-ended questions resembled a written narrative in asking participants to provide in their own words their personal perceptions, thoughts, ideas and approaches to provide richer data for analysis. According to Jabri (2006, p.364) understanding the culture of an organization is dependent largely on understanding the narratives from the employees on how they experience their workplace. Narratives provide knowledge on the environment within the context of the organization and are essential knowledge needed to understand policies and practices responsive to the needs of employees.

Section A was analysed through the SPSS quantitative data analysis package and reflected in tables and figures (basic quantitative, descriptive data). For the analysis of Section B, the researchers read through all the narratives and used 'thematic analysis' (Aronson 1994) to identify relevant tags (key words), links (codes) and categories (main themes).

A most significant ethical issue in the study was the need to ensure participant anonymity and confidentiality as some data might contain sensitive or strategic information. Therefore, no identifying information appeared on or was requested in the survey and participation was voluntary. Consent to participate was assumed when an employee returned the survey and all hard-copy or e-mailed surveys were returned directly to the researchers. The Curtin University Human Research Ethics Committee had approved the study as being managed according to its guidelines.

RESEARCH FINDINGS

As shown in Exhibit 1, the research participants comprised both females and males with more males as expected in senior positions in organisations. The ages of participants was spread from the twenties to over fifty years of age with the largest group being in the 40-49 years range.

EXIHIBIT 1. PARTICIPANT' GENDER AND AGE.

Characteristic	Variable	Number
Gender	Female	3
	Male	7
Age	20-29	1
	30-39	3
	40-49	4
	50+	2

Similarly, there was a range of industries represented in the survey, as shown in Exhibit 2, the advantage being that, in an exploratory study there was the potential for a variety of relevant responses. Exhibit 3 was used to present specific information regarding the participants' position and time employed in their organisation. A strong majority of participants held upper management positions and had been in their current job for less than three years, even though they had spent from less than three to more than 10 years in the organisation.

EXIHIBIT 2: PARTICIPANT' INDUSTRY

Industry	Focus	Number
Mining	Iron Ore	1
Electricity, Gas, Water & Waste Services	Water & Waste	1
	Water, Waste & Drainage	1
	Energy Logistics	1
Construction	Concrete Manufacture	1
Retail Trade	Hardware	1
Transport, Postal & Warehousing	Rail Engineer	1
Financial and Insurance Services	Banking	1
	Retail Banking	1
Health Care & Social Assistance	Aged, Disabled, Ill & Infirm Care	1

EXIHIBIT 3: PARTICIPANT' POSITIONIN ORGANISATION

Characteristic	Variable	Number
Organisational Level	Supervisory	1
	Middle management	2
	Upper management	7
	Executive	0
Time in Organisation	Less than 3 years	1
	3-5 Years	4
	6-10 Years	2
	10+ Years	3
Time in Current Job	Less than 3 years	6
	3-5 Years	2
	6-10 Years	1
	10+ Years	1

When asked about the effects of the global financial crisis on their organisation, all respondents reported a degree of 'downturn'. However, they reported that the 'downturn' varied; e.g., it was Slight (3), Moderate (4) or Significant (3). As shown in Exhibit 4, the economic downturn factors tended to be evenly divided between the categories of finance and work performance, although 20% of the participants' responses related to effects related to 'customers'.

The types of decisions used by the organisation in responding to the economic downturn were posited as being strategic (long-term), improvisation (short-term) or a combination of both. The initial response by participants indicated that no organisation used strategic or improvised decisions alone; i.e., all ten organisations used a combination of decision types to maximise their outcomes. Moreover, the respondents' answers indicated an equal number of specific decisions in the 'strategic' (6) and 'improvisation' (6) categories. In addition, there were 9 action decisions nominated regarding a 'staff' category (Exhibit 5). The suggestion is that staffing was a central area of operational change in the organisation's response to the economic strictures.

EXHIBIT 4: ECONOMIC DOWNTURN FACTORS

Links	Categories
Revenue inflow Cost of money Loan defaults Reduction in opportunities Cash-based deposits Funding opportunities Sales Government funding External funding	Finance
Vigilance Efficiencies Urgency Slowdown Nowhere near peak Trouble with suppliers Necessary maintenance Building downturn Contracts	Work Performance
Customer impact Demand for care services Consumer confidence Use of company facilities	Customers

EXHIBIT 5: CATEGORIES OF DECISIONS

Links	Categories
Borrowing of funds Credit/lending policies Longer-term impacts Quality human resources Rethinking core business Divisions joined together	Strategic
Moratorium on new equipment Moratorium on investments Reduced duplication of services Budget cuts Retail prices reduced New equipment orders on hold	Improvisation

Reduce staff numbers Staff reduction More accountability Retrenched staff No replacement of staff No overtime Staff forced to take leave Conditions of employees reduced	Staff
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Exhibit 6 presents specific actions that were effected by organisations in responding to the financial crisis; some organisations used more than one response, so the total number of responses does not add to ten. ‘Downsizing’ was the most common response by organisations, though the ‘Form alliances’ and ‘Restructure’ actions were used by more than one organisation; the use of a ‘Merger’ involved only one organisation. However, in addition to the four categories suggested, participants listed six ‘Other’ responses, as shown in Exhibit 6.

EXHIBIT 6: ORGANISATIONAL RESPONSES TO DOWNTURN

Action	Number	Details
Downsize	4	‘Other’ responses included: * Business improvement * Use of suppliers * Replacement of staff by natural attrition * Rethink core business * Reduce duplication of Services * Conservative expansion to take advantage of lower costs
Restructure	2	
Merge	1	
Form alliances	3	
Other	4	

When asked about what had triggered the organisation to make decisions for change, fourteen different items were linked from the key words provided by participants (Exhibit 7). The links were placed into one of the three categories of internal or external pressures or standard organisational practices.

EXHIBIT 7: REASONS FOR ORGANISATIONAL DECISIONS

Links	Categories
Need to stay in business – no other way Self-protection & survival State government decision	External pressures
Financial sustainability Desire to maintain service levels Monthly profit figures Efficiency measuring Amount of work in progress	Internal pressures
Constant review Constant monitoring Shareholder input Management review Review of needs of workers Focus on business opportunities	Standard practices

When asked if there was a generally accepted procedure to deal with chosen strategies in their organisation, only eight of the ten replied in the affirmative. Nevertheless, twelve different links were identified from the participants’ responses (Exhibit 8). The three categories of organisational procedures were identified as arising from management processes, factors related to decision-makers and a number of non-formal procedures.

EXHIBIT 8: PROCEDURES TO IMPLEMENT WITH STRATEGIES

Links	Categories
Standard management processes Strategic planning processes Industry codes and explanations Clear strategic plan Always reviewed and followed	Management processes
Enhanced to take account of factors specific to alliance partners Decisions made by the Board Decisions by senior staff	Decision-maker factors
Very quick decisions Knee jerk reactions Not much planning	Non-formal

Participants reported five information sources that were used by the organisation in order to investigate the need for changes to strategy (Exhibit 9). Most organisations used more than one source, which accounts for the tally of sources exceeding ten. In addition, the 'other' category had two items, each of which was nominated by only one person. The responses indicate that external market analysis and the driving vision of top management are the two major information sources for prosecuting change.

EXHIBIT 9: INFORMATION SOURCES FOR STRATEGY CHANGE

Information Sources	No. x/10
Executive network contacts	3
Driving vision of top management	5
Analysis by organisation's marketing department	4
External market analysis	6
Low level (bottom up)	5
Other – mining slowed government policy	2

Another aspect of effecting change in an organisation relates to the need for effective communication of the change decision and operational imperatives (Results are reported in exhibit 10). In the current study, 9 out of 10 participants reported that use of 'meetings' was essential. At the next level, each nominated on seven occasions were use of 'email', 'intranet' and 'employee training sessions'. In retrospect, the item 'employee training sessions' may have been better listed as 'employee information sessions'. Another feature of interest was that 5 out of the 10 respondents identified the 'informal grapevine' as being an important communication type in relation to organisational change.

EXHIBIT 10: ORAGNISATIONAL CHANGE COMMUNICATION

Type of Communication	No. x/10
Meetings	9
Email	7
Intranet	7
Internal newsletter	3
Internal memorandum	4
Employee training sessions	7
Informal grapevine	5
Other – CEO message	1

As indicated in Exhibit 11, there were nineteen links specifically related to employees' reaction to the uncertainty that resulted from changes to organisational strategy associated with the global financial crisis. From the links developed from the key words used in participants' responses, three major categories of reaction were identified; viz., categories based on opinion, assumption and principle which defined the level of intensity of employee reaction.

EXHIBIT 11: EMPLOYEE'S REACTION TO UNCERTAINTY

Links	Categories
Not too bad for business Limited uncertainty Effects moderate Awareness of environment/changes Employees reacted well overall Open & transparent organisation	Consciousness
Unsettled by redundancies Some concern but staff understood and accepted necessary changes A little stressed Not happy about salaries – all staff had financial commitments	Concern
Staff feel threatened Nothing safe Uncertainty about industry as a whole Uncertainty about keeping jobs Worried about jobs A lot of unrest Threat of industrial action Friction & trouble over lost jobs Some in union disrupted operations	Reaction

The three categories match three levels of awareness as a basis for action. At the 'consciousness' level, one is aware of the existence of uncertainty without it creating a strong emotional response; i.e., there is a balanced, if not positive approach. At the 'concern' level, one's consciousness of the situation is rather more serious and one feels more engaged emotionally. Finally, the 'reaction' level of one's emotional connection to the issue is strong and critical to the stage of creating serious stress and a negative response, even in association with others.

Similarly, participants' were asked about their own, personal reaction to the uncertainty that resulted from changes to organisational strategy associated with the global financial crisis. Again, the same three categories were used (Table 12). In this case, no research participants indicated that they were in the 'reaction' group. Judging from the links in the other two categories, it may be argued that, as senior officers in their organisation, they were aware of the uncertainty, but not threatened directly by it.

EXHIBIT 12: PARTICIPANTS' REACTION TO UNCERTAINTY

Links	Categories
No problems Heavy workload caused fatigue Knew job was safe Needed time to reassure staff Needed time to keep staff up-to-date Not really affected – some workload increase Didn't feel threatened myself	Consciousness
Limited uncertainty Some concern Accepted necessary changes Mostly worried about having to retrench people Was worried then relieved when I didn't lose my job	Concern
[No responses]	Reaction

Finally, participants were asked to describe how their organisation coped with employee responses caused by the uncertain economic climate of the crisis. Fifteen different links were identified from key words used in the responses (Exhibit 13). One means of categorising the responses was to separate them into positive (Plus), negative (Minus) and neither plus nor minus (Interesting) groups using the PMI model (De Bono 1993).

EXHIBIT 13: ORGANISATIONAL SUPPORT FOR EMPLOYEES

Links	Categories
Retain open dialogue Honesty Consultation with union reps Uses an inclusive, consultative model	Plus
It doesn't Not much concern shown really Predominant culture is 'avoid' Respond aggressively Not well done Little support offered Uncertain business No specific action to handle employee reactions	Minus
Management surveys – feedback loops Numerous 'open-space' meetings to allow wide-ranging contributions Managers mainstay for employee relations	Interesting

DISCUSSION OF FINDINGS AND CONCLUSION

Although, no research participants indicated that they were in the reaction to the crisis group or they were threatened by crisis and uncertainty (this can be explained by our sample characteristics, e.g. location in a wealthy state of Western Australia which was not significantly affected by the 2008 financial crisis), all of them admitted their awareness of the crisis and uncertainty. All respondents expressed an urgent need for improved communication both within and outside organisations, e.g. having meetings with key stakeholders and with other staff members in order to integrate and exchange knowledge from outside the organisation. This is aligned with previous studies (e.g. Savory, 2006) which reported that challenges of the economic environment require not so much discovery of novelty, rather, such environment requests rationalization and reconfiguring of existing knowledge. Our data demonstrates that the learning of new knowledge and rediscovery of existing knowledge is happening in collaboration with business associates and other actors of organisational nets. This finding also supports the previous literature on the role of strategic nets intentionally created by organisations and particularly intensively used in time of uncertainty as “safety nets”.

This study investigated how organisations can identify new opportunities by prompt response to the challenges of the dynamically changing environment and flexible movement towards the market demand. This study is adding to the dynamic resource-based view of strategy by incorporating the assessment of the business networks of the chosen organisation and investigating how the organisation is learning from its clients and other network participants. Our finding is that in time of crisis and uncertainty organisations source the knowledge both within and outside. Our data highlights that uncertainty promote organisations' quest for ongoing learning, consultancy and collaboration with key stakeholders, closer customer and supplier involvement in product and service specification for major customers, and fostering knowledge exchange.

The results provide insight into the organisational learning in networks and developing dynamic capabilities in response to the changes in the external environment. Because organisations learn from the environment, including through their business networks, they can foster their internal knowledge transfer and organisational learning. This flexibility and speedy response to the market enable organisations to develop new sources of a competitive advantage and sustain existing competitive advantage. Organisational learning and knowledge are key drivers of dynamic capabilities which allow organisations to respond to the challenges of the complex and dynamic environment.

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THE ASSUMPTIONS BEHIND STRATEGY THEORIES AND ISSUES ADDRESSED AND THE ALTERNATIVE VIEW OF COMPLEXITY

Sithulisiwe Mazwi
Northumbria University

ABSTRACT

Various strategy theories exist and this paper seeks to examine issues addressed by strategy theories and looks at alternative ways to view strategy. This is done by a review of literature on strategy theories by Ansoff, Porter, Mintzberg, Prahalad et al and complexity theories. It is found that there is a need for a holistic approach to strategy as existing strategy theories approach the phenomena of strategy by design or by using a reductionist approach.

INTRODUCTION

Strategy has been defined and explained in many different ways. This paper seeks to give an overview of the different strategy theories as purported by various authors like Ansoff, Mintzberg, Porter and Prahalad. Many of strategy theories are based on a few assumptions and this paper asks the question ‘Are these theories different perspectives of the phenomena of strategy? Do we then need a more holistic strategic approach?’ The paper also goes on to draw comparisons between how these strategy theories view the organisation and how complexity theories view the organisation.

Ansoff’s View on Strategy

In making an analysis of strategy theories it makes sense to start with Igor Ansoff who is hugely accredited/billed as the father of strategy. According to him, strategic decisions ‘assure that a firm’s products and markets are well chosen, that adequate demands exist, and that the firm is capable of capturing a share of demand’ (1986; 25). Ansoff’s strategy formulation model follows the search procedure to arrive at a strategy which is then accomplished through a ‘cascade approach’. Ansoff purports that the first step in strategy formulation is an analysis of the firm’s current position i.e. what kind of business the firm is in and what kind of business it should be in. From such analysis the firm can come up with objectives and then formulate a strategy to arrive at those objectives. After objectives (goals) have been set, a gap analysis is to be carried out and this analyses the difference between where a firm is and where it aims to be. Different courses of action (i.e. strategies) are proposed and tested for their ‘gap-reducing’ properties and the best one is selected. If the selected strategy fails to close the gap then an alternative approach is tried. Also, the course of action being effected is evaluated against any new information that may come in; this may result in modification of that strategy or a new strategy being implemented instead.

Ansoff’s model of strategy formulation is based on a few assumptions. Ansoff’s model of strategy formulation, it seems, limits the broader concept of strategy to ‘position’ in the sense that, using that model, the strategists seeks to move the firm’s position from where it is to where it should be. Ansoff defines strategy as a position. Another assumption is that Ansoff’s model follows is that structure follows strategy. According to this theory, internal structure is determined by what the strategy seeks to achieve, that is, structure is a means by which strategy is arrived at. Does that then mean that the structure has to be reconsidered with the launch of each strategy? It also means that the strategy of a company is driven by the external environment.

Ansoff’s view of strategy formulation addresses a few issues. He addresses the importance of positioning of an organisation within the environment. His view also addresses the importance of planning how to close the gap between where the organisation is and where it wishes to be, and the choices made in closing that gap.

Porter's View on Strategy

Michael Porter has a different opinion to strategy. Porter views strategy as position i.e. 'what's our position, how are we going to be unique and how will we sustain that over time' (Leaders in London). Porter (1996) defines strategy as 'the creation of a unique and valuable position, involving a different set of activities'. He views strategy as that which distinguishes an organisation from the rest (Porter, 1980), i.e. that which gives an organisation sustainable competitive advantage. Porter also articulates the model of strategy formulation in a few steps. First the strategist needs to assess the forces affecting competition in an industry; identify the organisation's strengths and weaknesses. The strategists devise a plan of action to position the organisation in such a way that its capabilities either provide the best defence against the competitive forces; influence the balance of competitive forces to the improve organisation's position or anticipate shifts in environment with the hope to exploit changes that may occur as a result.

Porter also identifies determinants of a successful strategy. He argues that it is important that strategy is seen as a way of integrating activities of diverse functional departments within a company and should be viewed as an over-arching agency that ensures consistency of vast actions. Successful strategy should exploit the company's core competencies and should provide a dynamic balance between a company and its environment (company and environment alignment).

Porter's views of strategy is only limited to organisation's positioning within the environment. He also argues that there are environmental forces that shape strategy (Porter, 1979). In this view then Porter views strategy as a reaction to environmental forces or anticipation to these forces. Strategy is then driven by external structure. It may also seem that like Ansoff, Porter views that internal structure of the organisation are re-adjusted to satisfy intention.

Porter's view on strategy formulation addresses some important issues. Like Ansoff, he highlights the importance of positioning of an organisation relative to its environment and competitors. Porter also focuses on creation of competitive advantage as a strategy.

Resource Based View on Strategy

The next view of strategy to be discussed is the resource based strategy. This view takes an inside out approach to strategy. Organisation's internal capabilities drive strategic decisions. Prahalad (1990) argues that creating strategy is creating a chasm between ambition and resources. Resources in this case are defined as input that enables the organisation to perform its activities. Prahalad (1990) a proponent of Resource Based Strategy argues that leadership's real responsibility is to articulate a strategic architecture that guides competence building where strategic architecture is a 'road map of the future that identifies which core competencies to build and their constituent technologies' (Prahalad, 1990). The strategic roadmap then provides a template for allocation of decisions by top management. Consistency of resource allocation and development of an administrative infrastructure appropriate to it breathes life into a strategic architecture. The architecture reveals the broad direction without giving every step.

Grant another proponent of resource based strategy devised a framework for formulating the resource based strategy. First, the strategist needs to identify the organisation's resources and appraise its strengths and weaknesses, then identify organisational capabilities. The next step is to appraise the potential the resources and capabilities for competitive advantage and appropriability returns. Grant (1991) then suggests the strategists to select the best strategy to exploit the company's resources and capabilities relative to external opportunities then identify resource gaps that need to be filled in order for that strategy to be a success. Grant argues that the essence of strategy formulation is to design a strategy that makes the most effective use of core capabilities of the company. He also points out that the most important resources in this case are those which are 'durable, difficult to identify and understand, imperfectly transferable, not easily replicated and in which the firm possesses clear ownership and control'.

The resource based view of strategy addresses the issue of competitive advantage arrived at by analysing the core competencies of the organisation and exploiting them. In this essence, structure drives strategy.

Mintzberg's View on Strategy

Mintzberg (1987, 1999) defines strategy as a plan, ploy, position, perspective or pattern. A plan is some sort of consciously intended course of action; a ploy a manoeuvre to outwit an opponent; a position a means of locating the organisation within its environment; perspective is shared concept its content consisting of an

‘ingrained way of perceiving the world’ and a pattern in this case is a consistency of behaviour whether intended or not intended.

Mintzberg identifies two main types of strategy: deliberate and emergent strategy. Deliberate strategies are realised as intended and for that to happen a few conditions have to be met. Ansoff’s model of strategy formulation falls under the deliberate strategy category, strategist(s) determine the goal and set out a path on how to achieve it, and it is assumed that the results are then achieved as expected. For deliberate strategies to be successful three conditions have to be satisfied; precise intentions (goals and the way to achieve them) have to be articulated explicitly and in detail; intentions should be common to all involved and intentions should be realised as intended i.e. organisation is in full control of its environment or organisation can fully predict the environment perfectly (Mintzberg, 1985). The current economic downturn and its effects is a perfect illustration that organisations cannot always predict the environment precisely; neither can they have full control of the environment.

Emergent strategy is realised without any intention attached to the strategy. The strategy is as a result of patterns and consistencies in the absence of intention. Pattern formation is evident in Ford when they released their T Model only in black or when Picasso released paintings in blue for a time. For emergent strategy to be successful, just like deliberate strategy a few conditions have to be met. First, there has to be a consistency in action over time in absence of intention. However, very rarely are perfectly emergent and deliberate strategies found, strategies ‘walk on two feet, one emergent and one deliberate’ (Mintzberg, 1985). Mintzberg insists that emergent strategy is not chaos but unintended order, emergent strategy gives an opportunity for learning strategy (leaders are open and willing to learn).

Mintzberg goes on to identify different types of strategies i.e. planned, entrepreneurial, ideological, umbrella, process, unconnected, consensus and imposed strategies. Planned strategy occurs when organisation leaders formulate intentions and articulate them as precisely as possible (to minimise distortion) and strive for their precise implementation. This is only possible if the environment can be controlled or fully and precisely predicted beforehand. In entrepreneurial strategy, the force for pattern or consistency is based on an individual vision, this is particularly common among small or start up businesses. It can also happen in large organisations in a crisis where people are willing to follow one person’s vision. The difference with planned strategy with this is that intentions are less specific. In umbrella strategies, those who have the vision do not control its realisation. They set the vision and let other actors to manoeuvre through them, within a set of boundaries. If actors are found outside the boundaries then central leadership can either stop them, ignore them to see what will happen (a beneficial pattern may emerge) or adjust the boundaries. In process strategy, leadership does not content of strategy but rather control the process of strategy. Leadership designs the system that allows actors the flexibility to evolve patterns within it. This is done by maybe by controlling the staffing thus controlling who makes the strategy. Consensus strategy is when natural actors naturally converge on the same theme or pattern without the need for central leadership direction or control. Finally, imposed strategy is another type of strategy mentioned by Mintzberg, where strategy can be imposed by the environment or external environment. An example is when Canadian government forced Air Canada to buy a particular air craft.

Mintzberg’s view addresses important issues including those addressed by other theorists. Mintzberg highlights the importance of strategic learning through emergence.

CONCLUSION

Strategy theories take different perspectives and address very important issues. However, one wonders if those are theories in their own right or different perspectives to the phenomena of strategy, an opinion that is analogous to the mythical story of the elephant and the blind men. All the theories focus on design and Mintzberg’s view on strategy is closest to a holistic view. Mainstream strategy theories view organisations as systems by design with a few assumptions about what an organisation is.

First, the theories have a reductionist view on the organisation i.e. an organisation is a sum of its parts. This is evident in that these theories are confident in assuming that a strategist can predict the outcome of their actions e.g. if a strategists chooses a strategy it will close the gap between where the organisation is and where it wishes to be, or it will position the organisation desirably. Strategy theories are also based on objective knowledge. Knowledge is relative to what we see and is not absolute (as these views to theory assume). This is evident their view that strategists can analyse where the organisation is and where it should be and make decisions well enough as to how to get the organisation to its desired position. Mintzberg addresses this by the concept of emergence which leaves room for strategic learning.

Organisations are complex and dynamic systems. As such complexity theories view organisations as being greater than the sum of its parts and emergence is a learning experience. Organisation can also exhibit chaotic behaviour. Organisations are highly interconnected as a result minor differences may cause major results. Sometimes these minor differences may be so minute it is hard to notice them, and hence it is impossible to predict. With this view in mind, the planning process (especially detailed planning) can be of value but can be futile and time consuming.

Mintzberg recognises the importance of emergence. Seel (2003) goes even further than Mintzberg and talks about factors that are conducive for emergence. However, there is no strategy theory that has a view of organisations as complex systems. Maybe we need an approach to strategy that can take account of complexity. What will strategy be defined as then?

Research into insight to strategy that views organisations as complex systems could consider an investigation of factors that affect emergence. Seel (2003) identified such factors as connectivity of interaction networks within the organisation; organisational diversity; quality of interactions within the organisation among others.

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THE STRATEGIC PRAGMATISM OF CENTRAL ASIAN STATES

Oskar Kayasan
European Research Centre, UK

ABSTRACT

This paper explores the regional leverage patterns of Central Asian States (CAS) from a global perspective. CAS countries, including Kazakhstan, Kyrgyzstan, Azerbaijan, Tajikistan Turkmenistan and Uzbekistan, have rather generic geopolitical settings which might have an impact on their globalisation progress. We examined the issue with particular focus on answering whether the globalisation of Central Asian States can reshape geopolitical strategies and efforts to enhance sustainable advantages. Regional integration stands at odds with the conventional wisdom of political science. Waltz (1979), Grieco (1988), and other neo-realists have argued that international cooperation is difficult to achieve in the anarchic state of globalisation. Although literature on regional integration and globalisation is available, general theories of regional integration within globalisation are still at the nascent stage. This paper's understanding of globalization is rooted in Held's (1995: 20) argument that globalization denotes the stretching and deepening of social relations and institutions across space and time (North D.C, 1990; Porter M., 1990). The lack of regional process between Central Asian States questions the priorities of regional integration. This research focuses on four levels of complex national and regional influences: (1), geopolitical complexities, (2); country-specific strategies; (3); resource based regional advantages; (4), globalisation; challenges and complementary'. The results suggest that primary challenges for CAS's new geopolitics of regional strategies are creating a diverse effect towards the globalisation progress.

Keywords: Globalization, regionalisation, competitiveness advantage, sustainability, strategies, Central Asia.

INTRODUCTION

The aim of this conceptual paper is to provide a typology of regional models which can provide an integrated approach to the understanding of Central Asia's regional strategies. The model persists of strategic pragmatism of the region by overwhelming influence of regional powers. There are, however limitation of this approach where national advantages are relatively dependence of regional involvement. The recent activities of the regional powers such as Russia, Turkey, as well as China's regional policies was examined. Complex geopolitics of the USA activities towards regional connivance strategy in Central Asia (CA) are creating extra dimension to the region. The overall aim of the paper

Even in advanced economic regions, there notably is an over-emphasis on region underlying structural economic changes and institutional frameworks (Rath and Kloosterman, 2000: 667; Kloosterman and Rath, 2003: 6). The model can be used to assess the viability of sustainable Central Asia's regional strategies. It will also discuss whether the competitive advantage and sustainability of Central Asia as a region can be achieved within the dominance of regional powers. Today, region energy policies and security issue are relatively under the Russia's influence. Despite the active involvement, Russia still lacks an overall regional strategy for the Central Asia. Nevertheless it seeks to engage collectively geological, security, and socio-economic policy goals.

As we are aware that, China has a real desire to expand its regional influence and territorial authority in the Central Asia's region. Furthermore, China, with its comprehensive regional security and economic interest, has been rather effective within the region in recent years. Specially, within the countries bordering China there are concerns about its long term interests. Turkey, the emerging new power, has increased its regional socio-economic interests. Since its deep rooted historical links with most Central Asian States, Turkey has now strengths their regional ambitions. Furthermore, socio-political and economic turmoil in Russia's domestic situation has given China and Turkey the chance to increase its share of influence in the region.

The USA and Europe have not taken the opportunity to the same extent due to other regional conflicts, such as those in the Middle East and East Asia. It is also argued that regional collaboration is not a significant aspect of the US policy, which consequently may persuade a competitive regionalist agenda on the part of

other attracted major powers like China and Russia. However, it does not necessarily mean a zero-sum game for the USA Central Asian regional strategy.

Over the years, most CA states have realized that there are no benefits by engaging one dominant power such as Russia. Despite the differences in their approach to regional as well as global powers most CA states are trying to diversify its regional stability. Although, most states are constraints by the fact that even Russia, Turkey or China would be the ideal power to dominate the region. Through an examination of the incomplete data from over last ten years, we can shed some lights on the complex inter- relationships and regional imbalances' of Central Asia. The future of regional pragmatism is still not clear in terms of regional and broader powers to further socio-economic collaboration.

COMPLEX GEOPOLITICS OF THE REGION

The future prospect of Central Asian region

One of the unsettled questions in the emerging field of regional competitive advantage and sustainability is the degree for regional pragmatism. In this paper we examine this issue with a particular focus on regional powers and whether the current state of globalisation can reshape Central Asia's (CA) regional strategy. This paper's understanding of globalization is rooted in Held's (1995: 20) argument that globalization denotes the stretching and deepening of social relations and institutions across space and time (North D.C, 1990; Porter M. 1980, 1985, 1986, 1990). The theory of globalization resonates with the notion of transnational spaces, understood as 'constituted by the various forms of resources or capital or spatially mobile and immobile persons, on the one hand, and the regulations imposed by nation-states and various other opportunities and constraints on the other' (Faist, 2000: 200).

The recent global financial market turmoil shows that global firms are to face the biggest challenge of restructuring to move business and society towards competitive advantages and sustainability. Striving for competitive advantage and sustainability suffers from overuse and overexploitation (Olson, 1965; Ostrom, 1990; Hardin, 1982). Societies need to abstain from overexploiting communal firms' resources and to practice self-control (Schelling, 1984, 1960) towards solely individual rent seeking behaviours. The earlier analysis of Buckley and Casson (1986), Hennart (1982), Rugman (1980), Caves (2007, 1971) broadly touched upon the public good nature of firms' advantages and knowledge, although these studies did not forge a clear link between global firms and globalisation of societies. Collective ownership of the network requires co-operation between actors in either formal or informal settings, where the actions of the actors are interdependent (Olson, 1965; Hardin, 1982, 1997; Sandler, 1992).

The Great Game of Regional Pipeline Politics

Increasingly Central Asia seems to be the stage for an improved version of the Great Game, in which the main dominant players today are China and the USA rather than the old powers of Russia and Great Britain. Current volatile situation of the Central Asia goes back to 19th century Anglo-Russian rivalry for the regional hegemony (R. Kipling). Since the region is to describe the 'great powers' various endeavors to fill the strategic void, and ranging from their military ventures to more competition for its energy resources. We are now experiencing that the age-old 'Great-Game' is entering a new and more complex phase. The conspiracy is still continues today, with new powers of hostility over the oil and gas resources of the Caspian Basin, with new indication of Islamic influence has increased its geopolitical potential. Despite its historical contexts there is no clear explanation by scholars what specifically is the Central Asia today.

The pace at which China is locking energy supply seems to only be increasing. And it is effective doing it without much of hostility by historical regional powers such as Russia. After reviewing some of the public deals that China has been making, it is rather obvious that its appetite to buy and secure more sources of oil and gas is creating long term strategic regional hub.

Although Russia still holds a failing grip over the region, the USA on the other hand has a diversified interest in the region. In recent years, the importance of Central Asia has increased to become an integrated part of Chinas tributary arrangement. Today, complementary arrangement of China and Russia challenging the US attempt to enhance influence over the region. The security aspect of regionalism and regional structures in Central Asia is limited by Russia's influence as a regional power, as well as by various constraints particular to the region and country specifics.

The Shanghai Cooperation Organisation (SCO) active involvement in the region has created priorities to engage China in the security discussion on Central Asia. Particularly, the Central Asia's regional pipeline politics was one of the important agenda beyond the security issues. Russia vs. China episode of Pipeline's interest may be very problematic from a regional perspective. Russia at times behaves as a strategic competitor when the regional authority is at stake. This none collaborative episode does interplay in Kazakhstan-China pipeline operation¹. China's first international Pipelineistan venture was the China-Kazakhstan oil link. Russia recently sealed more than \$5 billion in deals with China, advancing the agreement on a gas pipeline that will deliver up to 70 billion cubic meters of gas a year from Russia to China (Gasprom: 2009). Central Asia will, via Turkmenistan, defiantly be China's major suppliers of gas, but on the oil front it is more complex to find the common agreements. The most important rationale behind current activities is to increase and protect China's growing desire for energy resources. In addition, due to investment, trade and martial collaboration, there seems to be important security reasons for China to attempt to construct a traditional mutual relationship between China and the Central Asian counties. Energy and natural resources 'such as oil and gas' have emerged as the most important finical reasons for China to engage with Central Asia. It is with greatly diverged agendas that the Central Asian countries engage with China. For instance, Kazakhstan has been the most positive country towards further economic cooperation with China. However, the smaller economies in the region are less optimistic as they perceive that emerging pattern of Chinas dominance in the region. The ever increasing international dependence on gas and oil and the hard-bitten competition regarding these resources, will make more important to control Asia, as it is both a produce and a transit region. Recently China has taken further steps when they bought several oil and gas fields in Central Asia. The actual output that the oil fields will generate is difficult to estimate, specially for the fields which are under construction.

Exploring the Regional Relevance

Central Asian countries are trying to consulate their efforts for implementation of regional agreements for ensuring socio-economic wellbeing and prevention of regional conflicts. The region has its share of new opportunities and increasing problems. They hold an enormous deposit of natural resources to supply to the global economy and a wild eco system to support the environmental sustainability. Despite rich oil and gas fields, water conflicts are on the agenda as the Aral Sea basin is increasingly facing serious water shortages. Most of the Central Asian states have a rather weak civil society to improve governance and society well being.

Due to increasing conflicts amongst Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan over access to water resources, the existing pacts and agreements between and among countries have not been implemented or acted upon smoothly. Tajikistan and Kyrgyzstan even had a diplomatic confrontation. The recurring "Ketmen War"⁴ demonstrates the harm caused by the struggle for water. In April 2009, the five countries in Central Asia held a summit in Almaty on protecting the Aral Sea. The summit was supposed to resolve conflicts among the upstream states (Tajikistan and Kyrgyzstan) and downstream states (Kazakhstan, Turkmenistan, and Uzbekistan) over the distribution of water resources and the establishment of new hydropower stations. However, the region is experiencing various complex disagreements within and between regional powers. The cooperation level is determined by the following four actor linkages: the relationships between Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, the Russo- Sino relationship, and the four countries' relationships with Russia and China. Presently there are, due to several reasons, problematic relationships between the four Central Asian countries. One of them is the lack of necessary transportation infrastructure. If this situation could be changed, the cooperation quality could be highly improved.

Table: 1: The role of the Energy and Transport Infrastructure

Key Issues	Outline
Geopolitics-prevail	<input type="checkbox"/> Divergent governance, successions and conflict. <input type="checkbox"/> Economic Growth, cooperation and stability
Asymmetric market strategic-deter	<input type="checkbox"/> .State driven monopolies and open markets <input type="checkbox"/> Demand transit and producer state interest
Evolving investor – host government relations-shift	<input type="checkbox"/> Opening windows of opportunity in Turkmenistan <input type="checkbox"/> Limits to investment and export options elsewhere

Source: Author own, 2010

The above table shows, that there are rather complex integrated energy infrastructure in the region. The key issues are geopolitical settings of the Central States requires regional coordination to resolve current dilemma between themselves and the regional powers. Although divergence and conflicts between countries are undermining future prospects and needs rather radical solution. Since there is a increasing conflict of national interest to share of integrated energy resources.

The Caspian & Central Asian oil pipeline and future projects

The map (Map: 1) below shows the Caspian & Central Asian oil pipeline and future projects. The issue has received global interest and has created a variety of tension between the West and regional powers. Today, the issue is still causing a very complex diplomatic tension between US, Europe and Russia. Caspian & Central Asian Oil: China has become an increasingly important player on the regional scene since the start of the 2000. Central Asian governments have endeavoured to deal constructively and pragmatically with China over territorial and other disputes. The map below shows that there currently are three ongoing gas and oil pipelines between Central Asia and China. The Turkmenistan – China Gas pipeline opened already on Dec, 14, 2009. This was the first transnational Pipelineistan project between China and Kazakhstan oil link while others are still under construction (see picture image 1 below).

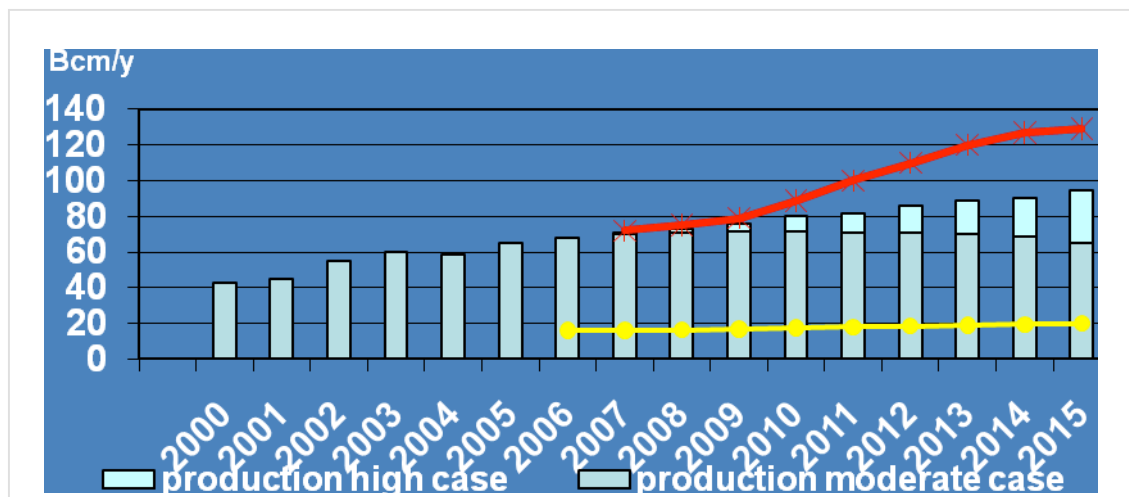
Map: 1 Pipeline Image:



Source: Pipelineistan, 2009

The pipeline runs for more than 1,800 kilometres from Turkmenistan’s Bagtyarlik gas fields (on the right bank of the Amu Darya River, near Uzbek border) via Uzbekistan and Kazakhstan to Horgos, the entry point to China’s Xinjiang Region, where the Central Asia-China pipeline connects with China’s internal supply network. The Uzbek and Kazakh sections run for some 550 kilometres and approximately 1,300 kilometres, respectively (Interfax, December 11). The gas will then be pumped for another 7,000 to 8,000 kilometres to cities on China’s Pacific Coast, including Shanghai and Hong Kong (Xinhua, December 11-14).

Figure 1: East of Caspian Gas Potential Turkmenistan *Might*



Source: OECD 2009

RE-EMERGENCE RUSSIAN INVOLVEMENT

Russia's relation with China in Central Asia is in one of the most complex to analyse and can be evaluated in many ways. Central Asia was important to Russia for several reasons. First, it became a core supplier of raw materials. Not only were food and livestock important commodities in the region, but so were exportable industrial products. Minerals, coal, and timber from the northern parts of the region and cotton from the central and southern parts were integrated into the Russian economy. In particular, the shortage of cotton on the international market caused by the U.S. Civil War (1861-1865) and prompted Russian officials to expand cotton production in Central Asia for domestic use and for international trade purposes. Second, Central Asia was strategically important. As noted, Russia found it was competing with Great Britain over South Asian possessions in what was often dubbed "the Great Game." As Russia expanded its control over the steppes of Kazakhstan and into the settled regions of Turkmenistan, attention was directed southward. It was not until the negotiated border agreement of 1895 that Russia and Great Britain came to terms with their respective holdings in Asia-Russian territory being what is today "Central Asia," and British territory being the regions of Pakistan and India. Afghanistan was seen as a "neutral buffer state," albeit under British influence. Below some areas which may clarify Russia's relation with China:

- China's Asymmetric Deterrence: China with modernized military is ready to fight along its border without permit or third party to intervene.
- Instability inside China: Socio-economic crisis in Northern part of China causes vast emigration to Russia
- Islamic Fundamentalism: Xinjiang independence should be a bed for Islamic fundamentalism and a copy for Central Asia.
- Future of Relations: Russians don't know Chinese tendency after the economic growth and solving of regional problem:
 - Shift to the South, no threats on Russian borders
 - Shift to the North, tension increases in China-CIS borders.

CHINA'S INCREASING INFLUENCE IN CENTRAL ASIA

China's emerging strategy, rather complex and long term, could revitalize the historical route of the Silk Road to the Pipe Line Route. As regional gas and oil deposits are substantial, they could be a lifeline for the China's overwhelming demand. China's close regional neighbour Kazakhstan has 3% of the world's proven oil reserve and its main oilfield is close to the Chinese border. China perceives Kazakhstan as a new alternative oil supplier, with the development of Pipelineistan connecting Kazakh oilfields to Chinese refineries.

This paper argues that the future of the China-Central Asian relationship is deeply embedded in mutual problems and common interests. There has been constant apprehension of outside interference as China now in actively seeking to explore. China is rapidly emerging as a world power. Within two decades it might directly challenge the regional power of Russia and the supremacy of the United States, Japan and Europe. At the same time there is new emphasis to create a zone of agreeable and secure countries around the Chinese's borders, which increases their political foothold and economic leverage in the future. Today, the Chinese interference in the region has changed due to the ever increasing demand for natural resources such as oil and gas for its domestic and mining industries. China's interest in the CA countries, such as Kazakhstan, Turkmenistan, Tajikistan, is mainly found by its ever increasing demand for energy resources.

With 3.7 million barrels a day, China is the world's fifth-largest oil producer, just after Iran. With a consumption of just 3% in the 1980s, China now consumes around 10%. China is the world's second largest consumers, still way below the US's consumption of 27%, but overtaking Japan's consumption rate. If this trend continues, the International Energy Agency (IEA) predicts that China will account for more than 40% of the increase in global oil demand towards 2030.

The below table (2) is the manifestation of various agreements with a real purpose of regional authority. The authority of Chinese interests in Central Asia is extent from national borders to socio-political ideologies. The areas of overwhelming evidence including the political and geopolitical impact of Beijing's growing influence along with the economic implications of the Chinese presence in Central Asia.

Table: 2: China has specific regional objectives and interests in Central Asia

1	Borders and Security	□ Border stability has been central to Chinese development plans and foreign policy priorities. The borders with Russia, Kazakhstan, Kyrgyzstan and Tajikistan are very important part of its national security.
2	Regional Arrangement	□ China's diplomacy in Central Asia aims to prevent the region from becoming a distraction from China's internal progress and foreign policy objectives.
3	Economic Interests	□ To maintain sources of energy in the region. China requires vast amounts of oil and gas from Central Asian countries, especially Kazakhstan emerges as a promising neighbour.
4	Military Cooperation	□ Increasing US military presence and influence in Central Asia is a concern for China's strategic calculus in the region. Therefore, China's military cooperation is vital with Central Asian neighbours.
5	Socio-Political Ideology	□ Socio-Political Ideology is a vital component of China's national importance. Sharing of the socio-political ideology with Central Asian states is in its own national interest.

Source: Author own source

The above table content has also actively supported by countries cooperated with Central Asian Republics Economic Cooperation (CAREC). The cooperation level is determined by the following points under the CAREC commitments and possible agreements. Further integration of Central Asian Republics Economic Cooperation (CAREC): i) Various efforts to adopt the concept to CAREC conditions and assess its potential regional benefits, ii) By identifying contiguous regions that might benefit from institutionalized forms of closer cooperation within and between wider boarder, iii) Intention to activate a 'bottom-up' dimension of CAREC-led regional integration effort, iv) Developing various ideas for the areas to be included as Asiaregio-type cross-border cooperation which is supported by China, v) Setting new groundwork for a closer cooperation at central governmental level, vi) To establish a foundation for socio-cultural understanding and sharing benefits of rich regional natural resources by more open borders

China has become an increasingly important player on the regional scene since the start of the 2000. Central Asian governments have endeavoured to deal constructively and pragmatically with China over territorial and other disputes. The image below shows that there currently are three ongoing gas and oil pipelines between Central Asia and China. The Turkmenistan – China Gas pipeline opened already on Dec, 14, 2009. This was the first transnational Pipelineistan project between China and Kazakhstan oil link while others are still under construction (see picture map 1). The recent influx of Chinese Business in Central Asia is changing the region and establishes a new form of consumer market. Cheap Chinese products are available from market stalls and supermarkets, bringing the cries of Chinese traders to most of the busy local markets in Central Asian Countries.

The establishment of Chinese business in most of commercial districts in cities all over the region is very common. Actually, it is a recurring pattern at hundreds of Chinese markets across Central Asia. For example, the Ya-Lan bazaar in Almaty has become one of cities largest market places, attracting many shoppers to its market stalls and supermarkets. It offers most products from household appliances and clothes to consumer electronics. In recent years, the initial local traders have been replaced by an influx of Chinese tradesmen, who have established larger shops and have become a fixture in Central Asia's metropolitan existence. However, China's growing presence in the region has also developed at the higher levels of society activities. As Chinese officials and business leaders have been active in the region, with variety of deals in different industries and signing new agreements, contracts.

RE-EMERGENCE OF HISTORICAL TIES

Turkey's Central Asia policy objectives are defined by its history, geography and regional interests. Turkey was among the first countries to recognize most Central Asian independence. Since, there has been active socio-economic involvement and over time their relation has strengthened in many areas. The relationship has evolved since Turkey, like many other countries in the world, became more aware of the rich natural resources of Central Asian countries, Within the constraints of its own region, Turkey has established a wide range of relations with CA republics. However, Turkish relations with the Caucasus and Central Asia have

changed dramatically in recent years due to global events and its consequences to the region. There has been a shift from an agenda dominated by economical, cultural and social factors towards, due to ongoing complex global and regional events such as 9/11, disputes in Caspian sea and ongoing conflicts in the region, a more marked military character. Today, Turkey is one of the biggest investors in the Caspian region and it has close historical, cultural and economic ties with the Central Asian region. The interest is not only commercial and economic but also considers the historical responsibility to support the societies and their wellbeing. Turkey has sought, with the support of the US, to establish itself as the main Caspian export route. This important route was crucial for Azerbaijan, Kazakhstan and Turkmenistan which these countries now heavily dependent for socio-economic developments. Apart from the economic gain, this agreement increases Turkey's socio-political influence in the Central Asian region.

NEW BALANCE OF POWER IN THE REGION

The reflection of current position of the region in the U.S.'s foreign policy has not always clear from the outset. The U.S.'s engagement in all Central Asian republics has given way to various misperceptions and inaccuracies in defining and categorizing the region. However, what is important to note is that Central Asia appeared to be of strategic interests with regards to the U.S.'s Global War on Terror. Before 2001 programs focused on "democratization, economic liberalization, and human rights dominated the U.S.' engagement, with scant attention to security cooperation. Therefore, it was the US Central Asian Politics carefully thought and proceed accordingly, however with a relatively minimum affect.

India's growing balance of power in CA

There is a widely held assumption that India's growing contact and influence in Central Asia have made it a new player in the region's complex geopolitics. With its large and dynamic young literate population India has recently has emerged as a major player in Central Asia. However, it needs to be further examined to what extent the regional game lens captures the real dynamics of India's influence in Central Asia.

STRATEGIC PRAGMATISM CONCEPT

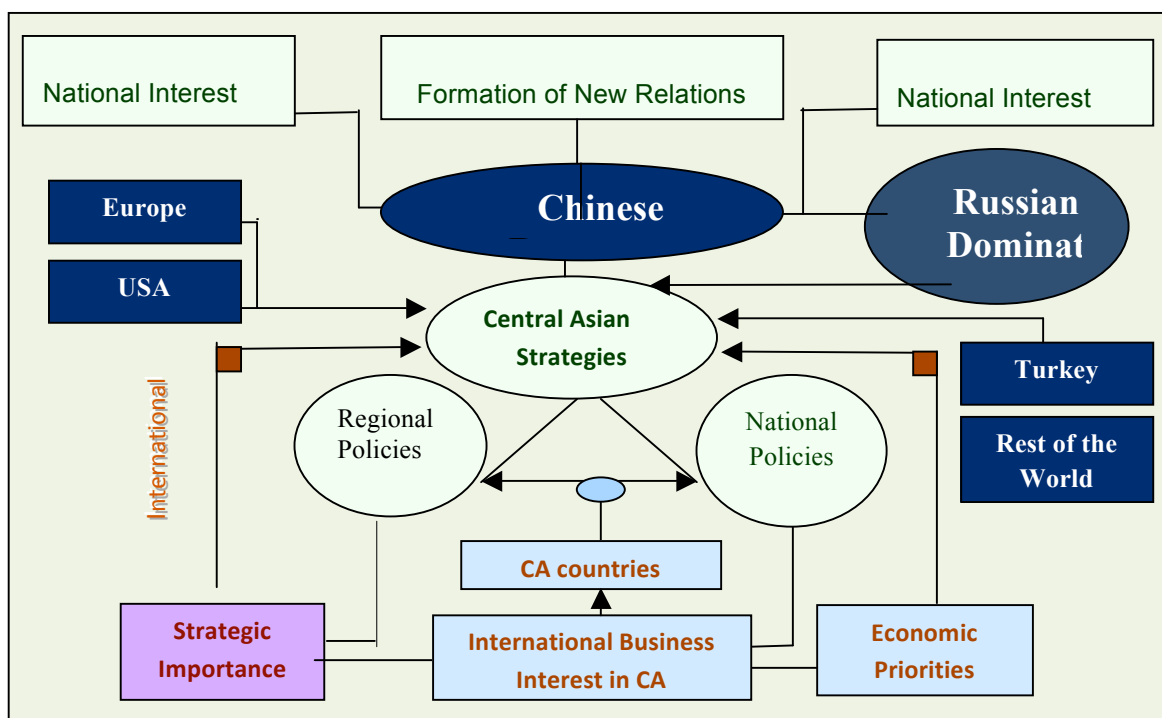
While the world, including the US, is watching, China is already having a clear energy strategy for Central Asia: the dragon strategy is already in action. As the West is hoping rather prematurely, in their analysis the Central Asian countries might not prefer dealing with their giant neighbour and favour Russia and West instead. Most Central Asian states are overestimated the Russian resistance to Chinese access to regional oil and gas resources. The complementary move does seem undermined the Russian long term strategic interest in the region. Although, these strategies are forthcoming, since China's engagement in Central Asia has been comprehensive and not restricted to gas and oil resources. In the last two decades, Central Asian countries have been looking for such contributions from global power leaders like Nazarbayev (Kazakhstan Premier) and Gurbanguly (Turkmenistan Premier) and other regional leaders highlighted over the years.

As Russia riles that with the commencement of China's Central Asia pipeline, Russia's post-Soviet control of gas exports from Central Asia has ended. The US's idea that China's gain would be turning out to be Russia's loss has been somehow over sighted. However, rationally, it is not a quite a zero-sum game, whatever it seems. There may be light at the end of the tunnel. Whether China is looked into competition with Russia over Central Asia's energy could be beneficial to the rest of the worlds energy prices, specially to larger users like the US and Europe.

Rules of engagement have changed in the mid 1990s from the three forces of "separatism, extremism and terrorism" to regional security, for which China has now taken up an enormous responsibility in the region. Somehow, the US were expecting that Russia and China would be at loggerheads in Central Asia, but this scenario has not materialized yet and is unlikely to happen soon. Russia has been part of the rules of engagement but has had relatively limited impact on the game itself. Accordingly haws in Moscow and Washington, there has been a growing argument that Russia seems favourable to China's investment in Central Asia.

The below model (2) is exploring the strategic shift of balance in the region between Russia, China, Turkey, Europe and USA. There are other newcomers such as India and Iran actively involving socio-economic relationship within Central Asian states.

Model 1: Strategic Analysis of Regional Complexities of Central Asian States



Author own construction: 2020

Central Asia and China have been closely entangled in history and today that relationship has begun to re-emerge at full speed. The increasing demand for natural resources shapes China's policies in Central Asia, but its interest goes beyond this. Despite the fact that China has emerged as one of the world's most powerful nations, it is relatively dependent on the Central Asian countries with regards to its energy resources. The partnership, acting through the various geopolitical "polygons", encourage other powers to try to develop their relation with both Russia and China up to the level of the current Russian-Chinese relations. Main conflicts will probably arise when competing for Central Asian oil and gas resources. Furthermore, there are ongoing territorial disagreements and Russia is concerned about the Chinese re-draw at the Russian Far East border.

The new type of relationship between two major powers has developed in the context of globalization and multipolarity. There is a changing trend of world powers: where the US is in decline, Russia and China are on the rise to have an impact in the new world order. Both countries are adapting to the realities of the globalized post-Cold War world and are discovering emerging areas of common interest and concerns. Hence these are areas where they are acting together. Their increasing presence in the world politics and socio-economic influences are clearly felt in the Central Asian states. Today's remarkable scope of cooperation with minimal differences should not be surprising, because cooperation is historically a more normal mode of Sino-Russian relations than the familiar China-Soviet split of the 1960s-1980s.

Sustainability of Regional Interests

Recent experience shows that Central Asian states have maintained a relatively good relationship with other countries outside its region. CA countries have experienced more difficulty in cooperating among themselves and so far have managed low levels of cooperation, especially in cross-borders agreements. Since their independence, water and territorial disputes have been the main obstacles to the improvement in the relationships among the Central Asian states. Despite some improvement, the the various form of disputes are still one of the ongoing obstacles for further regional integration. Currently, increasing conflict among Tajikistan, Uzbekistan, Kyrgyzstan and Kazakhstan over access to water resources, the pacts and various agreements within and amongst the CA states have not been implemented and put into practice.

There presently exists a rather problematic relationship between the CA countries, which are caused by reasons such as a lack of transport infrastructure, cross-border custom and sharing water resources. However

table three (3) shows that there are challenges, which when faced positively influence the future prospect for further integration between CA countries.

Table: 3 Current Observations of CA regional challenges and prospects

	Challenges	Prospects
1	Informal barriers are high in CA region	Adaption of new policies to formalize the barriers within CA region.
2	Current delays by other border agencies can be significantly more than Customs	Increasing supervision and contrail of border agencies to ease delays
3	Elimination of delays requires careful assessment	There has been some improvements in overall delays by new staff training and use of technology
4	Measurements should be continued on a systemic basis	International organisation are trying to establish a new measurement systems in CAC
5	Results should be disseminated in and outside the region	The impotents and results are gradually gaining international recognition
6	Further support from Governments and International organizations is needed	Various effort been made by national governments and international organisation but timing and credibly is still concern
7	Discrepancy between CA countries are still quite apparent in many areas of regional settings	There have been intergovernmental meetings to minimise the discrepancies' but national diversities are continue to be obstacles

Source: Author's own analysis, 2010

The challenges and prospects which is outlined at above table (3) are ongoing process and may take long time to establish for a stable forms of policies. Although there are various commitments to establish regional organisation by Central Asian states but still overwhelming difficulties to cooperate and how to go forward.

DISCUSSION AND RECOMMENDATION

Some of the forthcoming issues which Central Asian countries should be resolved to simultaneously negotiate at bilateral, regional and multilateral level: i) baffling web of commitments, ii) Slight involvement of business segments, iii) Inadequate human and financial resources for negotiation and implementation, iv) Lack of insufficient level of domestic market reforms to support regional trade agreements (RTA) and bilateral trade agreements (BTA), v) Deficient in of economic complementarities among countries, vi) Diverse political will to implement.

CONCLUSION

In conclusion, this paper has established that there is a need to consolidate, strengthen, integrate, expand and deepen the regional trade agreements in the region to reduce the spaghetti bowl effect. As we are aware: China is wary of alliances and prefers more flexible forms of regional relations. This also applies to Russia's involvement in Central Asia. Turkey has now become an emerging global power, which also has historical socio-economical ties with the Central Asian countries. This obviously complicates the CA into a more regional relationship puzzle. The level of strategic partnership in the region has full-fledged alliances and number of advantages. Unlike a coalition, the partnership does not make Russia responsible for any of China's actions in the region, nor does it involve significant commitments which could limit strategic partnership. The model (2) shows that the strategic shift of balance in the region between Russia, China, Turkey, Europe and USA is now creating new regional paradigm. The extent to which Geopolitical Empowerment are similarities at the global level, regional or national level represents the 'exposed orientation' of China to institutionalise a particular approach at the global scale or to adapt to the requirements of regional environment. In contrast horizontal axis is more a reflection of 'stated orientation', for instance, the extent to which Chinese leader view strategic decision making as a process concentrated in one local base, regional or global. The extent to which Geopolitical Empowerment are similarities at the global level, regional or national level represents the 'exposed orientation' of China to institutionalise a particular approach at the global scale or to adapt to the requirements of regional environment. In contrast horizontal axis is more a reflection of 'stated orientation', for instance, the extent to which Chinese leader view strategic decision making as a process concentrated in one local base, regional or global. The Significance of Chinas Geopolitical empowerment in Central Asia has redrawn the geopolitical landscape.

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THE ALIGNMENT OF BUSINESS ENVIRONMENT SCANNING STRATEGY AND IT STRATEGY IN THE ENTERPRISE

Dorota Jelonek
Czestochowa University of Technology, Poland

ABSTRACT

This paper aims to confirm the thesis of positive impact of alignment between business environment scanning strategy and IT strategy on the business performance in large enterprises.

The article proceeds in the following manner. First, it briefly reviews the literature regarding alignment, business environment scanning strategy and IT strategy. Secondly, the notion of “alignment” was defined and presented against the background of chosen concepts of alignment of different areas of enterprise’s business activity. Furthermore, the conceptual model of strategic alignment between business environment scanning strategy and IT strategy was presented.

The results from the survey conducted among 96 large enterprises will be used for verification. Application of the methods of confirmatory factor analysis will allow for assessment of the effect of each factor on the process of alignment and business performance.

Finally, the research findings and their management-related and theoretical implications were discussed.

Keywords: *business environment scanning strategy, IT strategy, alignment, business performance, confirmatory factor analysis*

INTRODUCTION

Regarding the term “alignment”, there is no consensus between researchers. Numerous synonyms have been used, such as: strategic alignment (Henderson and Venkatraman, 1993; Chan and Reich 2007), fit (Porter, 1996), integration (Weill and Broadbent, 1998), harmony (Luftman, Papp and Brier, 1996), and linkage (Reich and Benbasat, 1996). However, no matter which word is used, it is essential that “organizational performance is a consequence of fit between two or more factors such as the fit between organization environment, strategy, structure, system, style, and culture” (Van de Ven and Drazin, 1985). In the subject literature the examples can be found to confirm the significance of the alignment of business strategy and IT strategy (Henderson and Venkatraman, 1993; Chandler-Wilde and McFadzean, 2004), considerations and researches concerning alignment between HRM and KM (Shih and Chiang, 2005), alignment between virtual enterprise and IT (Cao and Dowlatshahi, 2005) etc. However there is a lack of research concerning alignment of the business environment scanning strategy and IT strategy, especially the influence of the alignment on business performance. Therefore, the presented findings in this area are an attempt to fill this gap.

LITERATURE REVIEW

In this study, the main topics under review are business environment scanning strategy, IT strategy, business performance and strategic alignment.

Business environment scanning strategy

The references are still emphasizing new concepts of scanning and acquisition of information about business environment. Depending on the extent of the environment to be monitored and analysed, the following methods can be used: competitor intelligence (Porter, 1996), competitive intelligence (Attaway, 1998), business intelligence (Kwieciński, 1999), environment monitoring ([Jelonek, 2002](#)), e-business environment monitoring system ([Jelonek and Nowicki, 2002](#)) or strategic information systems (Newkirk and Lederer, 2006).

Early studies of the problem of business environment scanning were only of descriptive nature and they did not focus on any assessment of changes. This trend pointed to changes in the environment but it entirely ignored the problem of how the managers are expected to cope with the new uncertain situation (Xu, 2003;382). This was connected with the perception of the environment as a place to search for resources. Changes in approach to business environment from 'environment as a resource' to 'environment as a source of threats' caused that directions of business environment scanning shifted from passive and descriptive towards active and research-based ones. Research trend exhibited different activities toward exploring business environment, with particular focus on investigations of unknown areas of business environment and, what is even more important, on analysis of the reasons for the changes that occurred (Brown and Weiner, 1985).

The concept of business environment scanning will be presented in the present paper. The necessity of formulation of the strategies for business environment scanning and identification of factors which are essential for formulation of the strategies will also be legitimized.

Obviously, the initiatives at the strategic level and initiatives at the operational level are very difficult to be unequivocally distinguished. It is also pointless to separate them if business environment scanning in practice is supposed to produce the expected results. However, this division can be employed for research and development purposes. Therefore, this assumption was adopted for the investigations presented in the present study.

It was assumed for the purposes of further investigations that (Jelonek, 2009;25) business environment scanning is a quintessence of observers' searching for information in consideration of information needs among the managers at all levels of management. Its activities are aimed at development of the knowledge about business environment, sharing knowledge and promotion of the idea of enterprise's learning. It is difficult, yet essential, to balance the proportions between the scope of control by managers and the freedom of creativity for observers. Environment scanning is coordinated centrally, however, it is also an activity of scattered nature, where a number of groups and individual observers are involved in acquisition, collecting, processing and making information and knowledge accessible. Strategy of business environment scanning contains the guidelines for development of activities in terms of scanning for a longer period of time.

Information technology strategy

The third key expression included in the title of the present paper is the IT strategy in the enterprise. A number of publications emphasize the role of IT in the enterprise (Dewett and Jones, 2001), business management (Turban at al. 1999), support for all areas of enterprise's business activity, and scanning of the environment (Jelonek, 2002).

Considerations of strategic importance of IT in enterprises can be made from two standpoints: first of them is a strategic approach and planning, the other is a strategic application of IT. Strategic approach and planning of the role of IT in enterprises should make managers realize the importance of information to management of enterprises, with particular focus on information about changes that occur in business environment. Strategic application of IT means implementation of solutions which directly impact on getting a competitive edge in the market by the enterprise. This is possible through application of new technologies and those solutions which will facilitate functioning of the selected areas of enterprise's activities so that the enterprise strengthens its market positions and improves its performance.

An IT strategy that considers technology a mere support tool for delivery of business processes is no longer sustainable. IT strategy and architecture must reinforce IT as a key enabler for business growth—closely aligning with your business strategy. Analogically to the environment scanning variable, the factors connected with operational level of IT were not considered for the IT variable.

Initiatives connected with implementation and utilization of IT are implemented within longer time and should result directly from the developed IT strategy for the given enterprise. Great benefits from application of this approach include widespread knowledge of the plans of further development of IT, definition of the list of priority projects and the order of implementation of each solution, demonstrating usefulness of the proposed solutions e.g. in the area of knowledge management which is increasingly more important to managers. Formulation of IT strategies is a perfect opportunity to talk for managers from different divisions and levels with IT division managers and share information about the course of business processes or new information needs. Cooperation of managers from different divisions with employees from IT departments and consultation of the plans of IT infrastructure development are also of great importance.

One of the goals of IT strategies should be to properly select employees with specific skills (competence) and ensuring that employees have opportunities to improve their skills e.g. through participation in trainings.

To sum up, IT strategy defines vision, mission and objectives of the implemented solutions of information technologies in relation to the strategic goals of an enterprise, method of implementation and it identifies the resources and IT services necessary to create the value for the enterprise. In particular, IT strategy should concern:

1. technological infrastructure (equipment, web solutions, operating systems, databases, mobile technologies etc.),
2. information technology systems used during execution of business, information and decision processes,
3. development of knowledge and competence among employees in IT departments,
4. protection of integrity and safety of information resources,
5. propagation of utilization of new technologies (e.g. Internet and mobile technologies),
6. striving for integration.

Peppard and Ward (2007) identified the list of principles realizing benefits from IT. They emphasized among other things, that IT has no inherent value. Just having technology does not confer any benefits or create value; benefits arise when IT enables people do things differently; only business managers and users can release business benefits. In this context, it is of great importance to adapt IT strategies to business strategies and, in the case of the author's interests, IT strategy to the business environment scanning strategies, especially that there is some evidence that alignment IT-business has beneficial effects. Henderson and Venkatraman (1993), reported that the IT-business (IS-business) alignment is critical for enhanced performance in many types of organizations.

Business performance

The result of the operation of businesses is a complex and multi-aspect concept. Management research has defined business performance from a variety of perspectives (Venkatraman and Ramanujam, 1986). Thus, during assessment of the performance, a variety of factors should be taken into consideration while the answers to the question of how well the company realizes its market and financial goals should be replied.

During determination of market performance a dynamics of sales in each company in comparison to the value of this index for the whole branch will be used. Market position of a company can be concluded from the estimated shares of the company in the market. The market performance overview can be extended with the assessment of return on sales in relation to other companies of the same branch.

Financial results are typically assessed on the basis of the level of profits reached by a particular company throughout the year and indexes of cash flow in relation to their competitors.

Strategic Alignment

In the subject literature, considerations of alignment, fit or integration are made with different approach: conceptual definitions (Luftman, 2000), operational definitions (Luftman, 2000) model structure of strategic alignment (Henderson and Venkatraman 1993; Maes 1999), or models for measurement of maturity of strategic alignment (Luftman, 2000; Sledgianowski and Luftman, 2001). Conceptual definitions was presented by Luftman (2000) defines business-IT alignment as applying IT in an appropriate and timely way in harmony with business strategies, goals and needs. The same study contains also an operational approach. According to Luftman (2000), the operational definition of IS-Business alignment is the actual implementation of the following processes:

- set the goals and establish a team,
- understand the business-IT linkage,
- analyze and prioritize gaps,
- specify the actions (project management),
- choose and evaluate success criteria,
- sustain alignment.

The following definition of strategic alignment was employed for further considerations (Jelonek, 2009;107): Strategic alignment of business environment scanning and IT is a process, i.e. a coherent set of sequentially performed combined and interacting activities or actions, whose goal is to achieve the expected results in the form of support from information technology for implementation of business environment scanning (IT-BES adjustment) and the situation where appearance of innovative opportunities to utilize IT causes modification of the adopted strategies (BES-IT). The goal of the undertaken actions is to achieve the results which positively impact on the results achieved by the enterprise. The alignment is a dynamic and continuous process.

The business and IT performance implications of alignment have been demonstrated not only theoretically but empirically and presented case studies (Kearns and Lederer, 2003; Chan et al., 1997). The findings support the hypothesis that the companies which successfully align their IT strategies with their business strategies are achieving, year by year, even better market position compared to those which seek the success only in business strategies or believe that cutting-edge IT will equip them with competitive edge in the market. Furthermore, alignment leads to a more focused and strategic use of IT which, in turn, leads to increased performance (Chan et al., 2006).

In the context of these examples, the problem of whether alignment between business environment scanning strategy and IT strategy has positive impact on the business performance in large enterprises seems to be even more interesting. The attempts to solve this problem were made within the present paper based on the author's own results from the investigations.

METHODOLOGY

Research model

The model of strategic alignment of the strategy of business environment scanning and IT strategy in the enterprise used for verification of hypotheses H1, H2, H3, H4 will be presented.

H1: Business environment scanning strategy positively influences business performance.

H2: IT strategy positively influences business performance.

H3: Alignment between business environment scanning strategy and IT strategy positively influences business performance.

A corollary for H3 could be stated in terms of a new hypothesis as follows:

H4: Alignment between business environment scanning strategy and IT strategy influences business performance of the enterprise more significantly than does either the business environment scanning strategy or IT strategy individually.

Because the variable „alignment” is hidden, confirmatory factor analysis will be used in order to assess its impact on market performance of the enterprise.

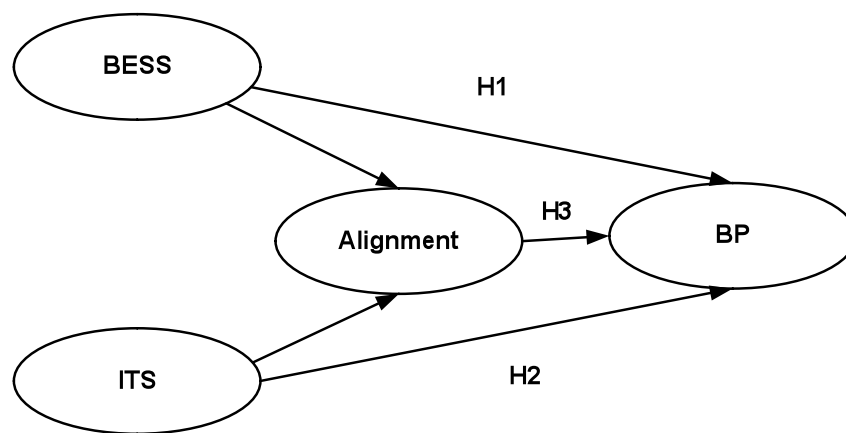


Fig. 1. A conceptual model

Variables

In this model, strategic alignment is an emergent construct, resulting from the covariation of the two constructs: business environment scanning strategy (BESS) and IT strategy (ITS). As a latent variable considered as a second order factor resulting from a confirmatory factor analysis and any item is needed to measure this construct.

Business environment scanning strategy (BESS), IT strategy (ITS) and business performance (BP) are considered as first order factors measured with reflective constructs (observed variables: the items of the questionnaire).

For the purpose of the study, the construct of BESS was created in a multidimensional perspective and eight criteria were chosen for measurement. BESS structure is the author's own proposal, however, the studies by

(Choo 2001), (Kourteli 2000), (Beal 2000) were used to support development of this concept. Furthermore, to model BESS variable, the author used studies by Correia and Wilson (2001) who identified and analyzed the factors internal to the organization, which affect the activity of environmental scanning. These factors include individual factors and organizational factors such as information climate. BESS structure includes involvement of managers in initiation of scanning processes and their commitment to create information climate in the enterprise.

Eight criteria were selected to measure IT strategy (ITS) in this model. The IT strategy is focused on outlining the vision of how the organization's demand for information and systems will be supported by technology, where essentially, it is concerned with IT supply (Luftman, 2000; Luftman and Brier, 1999). The construct ITS was created based on literature models and author's own research. The basic IT strategy components were outlined by (Henderson and Venkatraman, 1993; Luftman 2000):

1. Scope technology: The important information applications and technologies.
2. System competency: The capabilities (e.g. access to information that is important to creation/achievement of business strategies) which distinguish IT services.
3. IT governance: How the authority for resources, risk, conflict resolution, and responsibility for IT is shared among business partners, IT management, and service providers. Project selection and prioritization issues are included here.

Five criteria to measure business performance (BP) adopted from (Seggie et al. 2006) and (Venkatraman and Ramanujam, 1986) were used in this model. The items of the survey instrument are presented in the table 1.

Table 1.
The items of the survey instrument

Construct: BESS	
Item [BESS_1]	Level of use of the information acquired about business environment for formulation of enterprise's strategy,
Item [BESS_2]	Scope of macroenvironment scanning,
Item [BESS_3]	Continuity of scanning,
Item [BESS_4]	Managers' commitment to initiate the processes of business environment scanning,
Item [BESS_5]	Managers' commitment to create information climate in the enterprise
Item [BESS_6]	Openness of managers to define their information needs.
Item [BESS_7]	Clearly defined rules for collection of data and information
Item [BESS_8]	Transparent rules for distribution of data and information within business environment
Construct: ITS	
Item [ITS_1]	Strategic planning of development of IT
Item [ITS_2]	Priority of IT projects
Item [ITS_3]	Strategic importance of IT
Item [ITS_4]	Planning of trainings for employees in IT divisions
Item [ITS_5]	Participation of IT division in selection of IT solutions for other divisions
Item [ITS_6]	High competence of employees in IT division.
Item [ITS_7]	Knowledge of business processes among IT managers,
Item [ITS_8]	Knowledge of information needs among managers in other departments,
Construct: business performance	
Item [BP_1]	Dynamics of sales as compared to the index throughout the branch
Item [BP_2]	Rise in market share
Item [BP_3]	Return on sales
Item [BP_4]	Rise in profits
Item [BP_5]	Cash flow

Data collection

The presented results are a part of the investigations conducted among 180 companies from manufacturing, trade and transport service sectors, carried out by the author at the turn of the year 2008/2009. The entire

questionnaire contained 52 questions. The survey was conducted by an entity which provides professional market survey services using Computer Assisted Telephone Interviewing (CATI) technique. A test group was selected randomly with consideration of the following criteria: an average-sized and large-sized companies; and manufacturing or trade or transport service sector industry. The respondents included senior managers and supervisors from the divisions closely related to the market, i.e. marketing, sales etc.

A 5-point Likert-type scale was selected (strongly disagree to strongly agree) for the business environment scanning strategy, IT strategy and business performance. This scale consists of items measuring BESS (8 items), ITS (8 items), and BP (5 items).

DATA ANALYSIS AND RESULTS

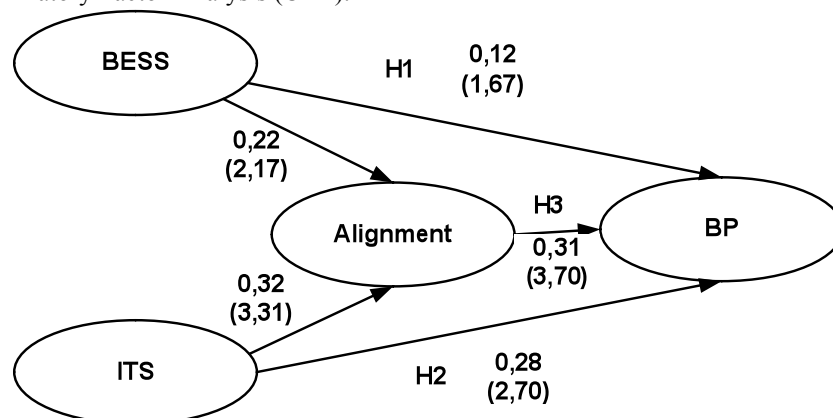
In consideration of the goal of the present study, hypotheses H1 to H4 will be subjected to verification only in the group of large enterprises (96 of them participated in the study). 21 questions were selected from the whole group. They concerned business environment scanning strategy, IT strategy and business performance. The following table presents the respondent's profile.

Table 2
Respondents' profile (N=96)

Characteristics	Frequency	Percentage
Sector industry		
Manufacturing	52	54,2
Trade	24	25,0
Transport Services	20	20,8
Type of ownership:		
Public	20	20,1
Private	76	79,9
Source of company's capital:		
100% Polish capital	70	72,9
Majority of Polish capital	10	10,4
100% foreign capital	9	9,4
Majority of foreign capital	7	7,3
Sales (in million PLN)		
0 - 40	41	42,7
> 40	55	57,3

Data examination

The research covered 96 respondents. Each of them answered 21 questions contained in the questionnaire that theoretically represented three constructs of variables. To confirm that each construct (BESS, ITS, BP) was measured accurately by the proposed items, the Exploratory Factor Analysis (EFA) method was initially used (to confirm the fit of the construct), and then the single-dimensionality of constructs was confirmed by means of Confirmatory Factor Analysis (CFA).



Standardized path coefficients reported on causal paths, associated t-value in parentheses;
individual items and corresponding factor loadings not included for simplicity
Significant at the p<0,05 level

Fig. 2 Results for research model

The Kaiser-Meyer-Olkin measure (KMO) is well (0,615) and value of Bartlett's Test of Sphericity is significant (Chi-square = 678,510; Ddl=210; p=0,05), therefore the data set of this research is adequate for factor analysis. Eigenvalue for all items was well: BESS (4,451), ITS (2,329), BP (2,021). Reliability of all the constructs was tested Cronbach-Alpha method. Cronbach-Alfa for all items was well: BESS (0,791), ITS (0,851), BP (0,770).

Table 3 presents the indices obtained for this model and illustrates how they compare to the recommended indices and to the saturated model (where all the latent variables are interrelated).

Table 3.
Goodness-of-fit measures

Goodness-of-fit measures	Observed value	Recommended
Chi-square	678,510	None
Ddl	210	None
Chi-square adjusted	3,231	<5 (Sagan, 2003)
GFI	0,882	>0,9 (Kefi and Kalika, 2005)
AGFI	0,869	>0,9 (Kefi and Kalika, 2005)
Root Mean Square Error of Approximation (RMSEA)	0,082	<0,08 (Kefi and Kalika, 2005)
RMSEA lower limit of 90% of confidence corridor	0,0724	
RMSEA upper limit of 90% of confidence corridor	0,0892	

The overall fit indices are good. Therefore, the research model presented in figure 1 is plausible in the population. The alignment variable is significantly correlated with both of the two independent variables of the model: business environment scanning strategy and IT strategy.

The path from alignment to business performance is 0,31 (t=3,70). This means that higher levels of alignment lead to higher levels of business performance. The path from BESS to BP is 0,12 (t=1,67), and the path from ITS to BP is 0,28 (t=2,70). All t-values were significant at 0.05 level. This indicated that all hypotheses were verified at the construct level.

DISCUSION AND IMPLICATIONS

The strategy of business environment scanning is one of a number of partial strategies, which should be developed in enterprises in consideration of the company's objectives defined by its business strategy. Review of available reference and author's own experience gained for many years of cooperation with enterprises (implementation of projects of Computer aided business environment scanning (Jelonek, 2002) and Strategic alignment between environment monitoring and information technology in a company. A methodological and empirical study (Jelonek, 2009)) allow for concluding that managers do not pay too much attention to the strategy of business environment scanning and typically limit the organization of scanning activities to operational level. On the other hand, lack of formal (in a paper form) formulation of strategy objectives does not mean that managers neglect this problem. Survey showed that a considerable number of respondents recognised the strategic importance of business environment monitoring and evaluated company's activity in this area at a very high level.

The list of the factors which can have impact on strategy of scanning of business environment can be very long. The specific nature of each business, the adopted strategy, environment disturbances, financial resources and any personal factors connected with managers and employees (knowledge, experience, vision) might either support monitoring of environment or cause that such actions do not have any effect.

The factors presented in the paper do not exhaust this long list. However, as confirmed by the results of the study, they should be included in the process of BESS-IT alignment.

Importance of IT strategies is exposed in a number of publications; these results also confirmed that each of the distinguished factors considerably affects IT strategies and must be taken into consideration in the process of alignment and it can be expected that the alignment process will positively impact on the company's performance. It is worth emphasizing that IT itself does not generate any value added for the

company. This value appears as the result of proper management of IT consistent with IT strategies and this value is created during the process of alignment.

While discussing the presented results, it is worth mentioning several general conclusions which can be formulated using the value of arithmetic mean for each question. The survey showed that the managers are willing to make use of the acquired information about the environment and show their commitment to initiation of the process of environment scanning. The attempts to extend observation over the selected segments of macroenvironment and care for continuity of observation were assessed relatively low. The lowest average score was assigned to managers' attitudes, particularly to their involvement in creation of information climate which would be conducive to information openness and knowledge share.

Analysis of arithmetic mean for ITS variables, one can assume that the companies plan development of IT in longer time, which can be deemed to be a strategic planning. The plans are usually not formalized; therefore, the level of this planning was not assessed too high. Competence of IT division employees was assessed relatively high, but opportunities of IT staff development and participation in training were assessed much lower. In the studied enterprises (large companies), which employ several IT specialists, assessment of participation of IT division in selection of IT solutions for other divisions was quite high (contrary to the results for medium enterprises (Jelonek, 2009). IT projects, from perspective of the average studied enterprise, do not have high priority.

In the context of selection of research sample in verification of the presented model (large companies) and positive verification of all the hypotheses H1 and H4, the results from similar investigations concerning e.g. manufacturing companies should be also emphasized. In the model of strategic alignment (using all 52 variables) in manufacturing companies (99 entities), a positive effect of strategic alignment on company performance was confirmed (hypothesis H3). However, impact of IT on company performance was even higher, thus hypothesis H4 was not confirmed (Jelonek, 2009).

CONCLUSIONS

As can be concluded from the findings of the present study, the process of strategic alignment of BESS and ITS is not a simple task. It requires company to be aware of many factors that can affect strategic alignment. It is hoped that the results of this research will provide companies with a better understanding of how they can align their business environment scanning strategy to their IT strategy, and provide the basis for further research into this important area of business.

Business environment scanning should be managed similarly to the activities of strategic importance, where investments are of long-term nature, but profits on these investments can be spectacular. Not only do these initiatives require expenditures but also commitment, competence and talent among the managers; the time must also be spared to develop the concepts, establish principles and procedures.

The study confirmed that BESS positively impacts on company performance (H1) and ITS positively impacts on company performance (H2). However, best results can be achieved if BES and IT strategies will be aligned (H3 and H4).

As mentioned before, separation of alignment of BES and IT into strategic and operational level is a theoretical operation, but the obtained results of the investigations can be used for solving the following research problems in the future:

Does alignment of BES and IT at operational level positively affect the performance reached by large enterprises?

Does alignment of BES and IT at the strategic level or at the operational level have greater impact on the performance reached by large companies?

Verification of full model (52 variables) of alignment of BES and IT in large companies.

How does impact of BES on business performance change in each of the abovementioned models?

How does impact of IT on business performance and on alignment change in each of the abovementioned models?

Is it possible to ensure synergy effect in each of the analysed models through alignment (hypothesis H4)?

Solving all these research problems can be a good base and starting point for creation of a set of good practices for achievement of strategic alignment of BESS and ITS in order for the enterprise to reach possibly highest results. There is an open problem for the future concerning the assessment, measurement methods and the methods to improve strategic alignment.

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EFFECTS OF ENVIRONMENTAL SCANNING AND PLANNING FLEXIBILITY OVER FIRM PERFORMANCE IN SMEs

Türkan Doğan
Kocaeli University, Turkey
Asım Altunbaş
Gebze Institute of Technology, Turkey
Lütfihak Alpkın
Gebze Institute of Technology, Turkey

ABSTRACT

The purpose of this paper is to produce evidence about the correlation between (1) environmental scanning and firm performance and (2) planning flexibility and firm performance while examining the moderating effect of market dynamism on both environmental scanning and planning flexibility in small and medium sized enterprises (hereafter SMEs). Four hypothesized relationships are assessed with a sample size of 600 randomly chosen firms among 1200 manufacturing organizations carrying on business in Kocaeli by utilizing face-to-face questionnaire survey technique. 400 executives agreed to participate.

The outcomes of the statistical analyses of this research have exposed considerable conclusions on the effects of environmental scanning and planning flexibility over firm performance. The reliability analyses of the scales used in the research have suggested significant results. Research findings through the completion of regression analyses which have been conducted in order to test the hypotheses; are found to be concurring with literature. In addition to the statistical results, the findings have been conceptually discussed and concluded. Finally implications have been presented for future studies.

KEYWORDS: SMEs, environmental scanning, firm performance, planning flexibility, strategic planning, market dynamism.

INTRODUCTION

Adaptability and responsiveness to the dynamism and turbulence present in the rapidly changing marketplace are among the principal competitive superiorities of the firms competing for excellent positions. Managers and scholars look for better mechanisms as well as models that may contribute to this competitive position of the organizations by indoctrinating adaptive characteristics to their structures, techniques, strategies, plans, and implementations. Information collection to learn and flexibility to adapt are two of considerable core competencies that are proposed as their sources of sustainable competitive advantage by the recent literature on strategic management. Previous studies (e.g. Baker and Sinkula, (1999); Naman and Slevin, (1993); Barringer and Bluedorn, (1999); Slater and Narver, (1998)) indicate that the organizational performance is directly related to the combination of all relevant factors such as culture, climate, procedures etc. in order to adapt to rapidly changing market dynamics. The very nature of the change itself is thus based on the survival of not the strongest nor the largest but the most adaptive, which means change favors the smaller and also more knowledgeable and flexible.

According to Jansen van Vuuren (2002) careful monitoring of a firm's internal and external environments for detecting early signs of opportunities and threats may influence its current and future plans. In comparison, 'surveillance' is confined to a specific objective or a narrow sector. It helps to understand the organization's internal needs and assets and the external environment in which they are operating. Today the business environment is at the phase which it has become most complicated, most difficult to understand or analyze and most intricate due to internal and external –ever changing- influencers. In an environment of complexity in which gathering, analyzing, and disseminating information for strategic purposes has emerged

as a vital necessity for survival, the comprehensive scanning became one of the most important elements of organizational success. Authors, researchers such as Duncan (1972), Mintzberg (1973), Hambrick (1979, 1981, 1982), Bradley (1995) and many more have emphasized the importance of environmental scanning on the business performance of the organizations. Notable researches and studies therefore proved that the level of environmental scanning in organizations is positively related to their organizational performance.

Recent studies, however, investigating this well established scanning-performance relationship specifically in SMEs is surprisingly rare. Since SMEs are established and survive thanks to their ability to learn from and adapt to the external environment, scanning is very vital for their sustainable competitive advantage. There are various implications of environmental scanning. Therefore in this study, the level of performance of the SMEs that is directly contingent to their environmental scanning efforts will be tested. Our second emphasis in this study is on the claim that the level of planning flexibility in SMEs may have also a direct positive effect on the overall performance. To handle the burdens of a highly dynamic market the organizations must be responsive and adaptive to the ever changing market needs which puts forth the question of flexibility for consideration. The logic behind this is that the level of flexibility enabling the organizations modifying themselves will be a defining factor in the organizational success, as the complexity of the environment requires responsive change in the organizational structure or strategy.

Together with the direct effects of environmental scanning and planning flexibility on overall performance, the dynamism of the market can intervene in these relations, since the necessity of learning from and adaptation to the external environment and their performance impacts can be augmented in a turbulent market. According to Dess and Beard (1984) the market dynamism describes the rate and the unpredictability of change in a firm's external environment. Dynamism can also be described as the frequent changes in the industry, including changes of market elements such as customer demand, technology, competitor structure, etc. (Achrol and Stern, 1988; Jap, 1999), and is particularly important because of its influence on relationships between a variety of firm-level constructs and firm performance. Therefore it is inevitable to fully understand the factors that compose the market dynamics and their effects on organizational dynamics. Accordingly, in this study, we investigate moderating role of market dynamism on the performance impacts of environmental scanning and planning flexibility in SMEs.

The second section preceding the introduction section is on the background of the literature covering our research hypotheses. The third section of this paper is about the research methodology including data collection, measurement of constructs, measure validation and analysis. The final section provides the readers a summary of the findings and managerial and further research implications.

BACKGROUND AND RESEARCH HYPOTHESES

Environmental Scanning and Firm Performance

Environmental scanning emerged in 60s, when company executives began to speak about it openly and it became part of strategic planning (Russel and Prince, 1992). But it was only in the 1980s that its obvious impact on companies started to be proven, especially to the ones that are newly established and recently developing which needed more effective use of external information.

The environment was defined by Duncan (1972) as the relevant physical and social factors outside the boundary of an organization that are taken into consideration during organizational decision making. The environment, perhaps more than any other factor, affects organizational structure, internal processes and managerial decision making (Duncan, 1972; Pfeffer and Salancik, 1978; Galbraith, 1973).

Moreover, Miller's study (1988) on the relationship between strategy and the scanning activities by investigating the relationship between an information-processing dimension and Porter's (1980) generic business strategies aimed to understand the correlation between the environmental scanning and firm's performance. Miller investigated the amount of environmental scanning activities rather than the type of scanning activities. On their study, Hrebiniak and Joyce (1985) argued that (a) organizations employing either a defender or low cost would use environmental scanning activities that seek immediate solutions for lowering costs or improving profits, and (b) organizations using either a prospector or differentiation strategy

would employ environmental scanning activities in a non-directed manner, looking for opportunities rather than searching for immediate solutions to cost or efficiency problems.

Believing that environmental scanning eliminates uncertainty can cause executives to misunderstand the perception of security. It can lead them to neglect external signals. Scanning can help managers deal with uncertainty, if only they recognize that uncertainty can be minimized, not totally eliminated (Hambrick, 1981; Barringer and Bluedorn, 1999).

The idea that scanning contributes to firm performance base on empirical results of Boyd and Fulk (1996); Daft, Sormunen and Parks (1988). Bourgeois (1985) found that a firm which scans its environment with greater perceptual accuracy can achieve a higher economic performance compared to an average level competitor. Research by West and Olsen (1988) also shows that there is a high correlation between firm scanning behavior and performance in the industry.

Formal environmental scanning systems are an established business activity in some large corporations, which have the resources to conduct thorough, systematic environmental scanning and recognize the risks of not consistently monitoring their external environment. Smaller firms may not have the resources and the will to make a long-term commitment to have formal environmental scanning systems. Firms that do not have a market orientation do not have an external orientation and may not value external information. Firms emphasize centralized decision making, individualistic goals, and rigid chain of commands, and are often less than receptive to ideas from outside of the firm (Lauzen, 1995). Moreover Stoffels (1994) reminds us that environmental scanning has additional barriers that lessen its effectiveness: analysis performed on data may lack credibility, the cost/benefit ratio of environmental scanning is indeterminate, and the firm may have a bias toward immediate results. In total, this discussion leads to the following hypothesis:

H1: The level of environmental scanning in SMEs will be positively related to their firm performance.

Planning Flexibility and Firm Performance

Flexibility, as reflected in the literature, subsumes several aspects and dimensions (Sethi and Sethi, 1990; Volberda, 1998). Planning flexibility refers to the capacity of a firm's strategic plan to change as environmental opportunities/threats emerge. The notion of planning flexibility was first suggested to investigate how environmental and firm characteristics affect the design of strategic planning systems. In complex environmental settings firms maximize performance by adopting 'flexible' planning systems (Kukalis, 1989; Barringer and Bluedorn, 1999). Flexible planning systems allow firms to revise their strategic plans quickly to pursue opportunities and keep up with environmental change (Stevenson and Jarrillo-Mossi, 1986). Kukalis (1989) theorized that firms in highly complex environments need flexible planning systems because of the frequency of change in their business environments. Recently, flexibility has also been related to the capacity to change and develop products, and to such strategic issues as entering new markets or new industries (Harrigan, 1985; Ghemawat; 1991; Volberda, 1998; Fahy and Smithee, 1999).

Much of the theoretical discussion regarding the notion of flexibility is divided into four main types; operational flexibility (Tang and Tikoo, 1999), financial flexibility (Mensah and Werner, 2003), structural flexibility (Harris and Ruefli, 2000) and technological flexibility (Adler, 1988; Harris, 2002). However, an assessment of their respective impact on performance in a strategic planning context is absent from the literature.

Dreyer and Grønhaug's studies (2004) showed that it is difficult to give a high priority to financial flexibility without a careful investment policy, which implies giving lower priority to developing other necessary forms of flexibility, such as volume and product flexibility. Its competitive position, however, the firm must exploit opportunities and neutralize threats in its competitive environment and it is possible to achieve sustained competitive advantage in highly uncertain environments. The study of Alpan et al. (2007) demonstrates that planning flexibility exerts a negative effect on firm performance while market dynamism is higher.

Organizations, through strategic planning, anticipate environmental turbulence and allocate resources accordingly. By being flexible, alternative decision options are generated and considered, which may be deployed as and when particular opportunities or threats arise within the environment. As this process occurs prior to the impact of turbulence, flexibility in the organization is anticipatory and preparatory in nature

(Evans, 1991). In addition to that the studies of Rudd et. al (2008) supports the idea that flexibility mediates the relationship between strategic planning and performance. Both operational and financial flexibility mediate the influence of strategic planning on financial performance, while structural and technological flexibility mediate its influence on nonfinancial performance. In planning decisions under uncertainty, future plan feasibility/flexibility and economic risk are two important factors that have to be monitored and balanced against expected profit (Ierapetritou and Pistikopoulos, 1993).

From the earliest studies followed by Eppink (1978) to the most contemporary ones such as Wang and Cao's studies (2008), supports the main theory that making an organization less vulnerable to external change is easier by increasing external flexibility that will result as a boost up to the firms' performance. The empirical study done by Andersen (2000) provides evidence that strategic planning (that emphasizes elements of the conventional strategic management process) for flexibility is associated with higher performance in all the industrial environments studied. The performance effect of strategic planning does not vary significantly between the different industry groups. Hence, strategic planning for flexibility is an important performance driver in all industrial settings, and enhances both economic performance and organizational innovation. Strategic planning processes are essential to good performance in all industrial environments and should not be ignored (Andersen, 2000).

Therefore we propose the following hypothesis:

H2: The level of planning flexibility in SMEs will be positively related to their overall performance.

The Moderating Role of Market Dynamism in Environmental Scanning-Performance Relationship

As the ancestor of the planning approach in strategy, Ansoff (1979), suggests that the nature of the environmental change was altering and giving rise to strategic surprise. The basic effect of uncertainty is that it limits the ability of the organization to pre-plan or make decisions about activities in advance of their execution. The more uncertain the situation, the more an organization will need flexibility as a complement to planning which in these situations the use of planning strategies would be increasingly supplemented and sometimes replaced by preparedness or flexible strategies. Weitz and Anderson (1981) state that the key factor in determining the method for organizing and controlling the marketing function is the environment in which the marketing function is to be performed. Empirical research in marketing has been geared toward understanding the relationship between environmental turbulence and strategic market planning (Silverblatt and Korgaonkar, 1987) which lead the way of studies to show the interaction between market dynamism and environmental scanning.

The dynamism describes the rate and the unpredictability of change in a firm's external environment (Dess and Beard, 1984), and is particularly important because of its influence on relationships between a variety of firm-level constructs and firm performance. Firms facing turbulent business environments are more likely to manage such environments by developing long-term and complete plans. Decentralization of strategic market-planning activities are more common among companies facing turbulent environments than those facing stable environments (Silverblatt and Korgaonkar, 1987). Moreover, organization structures that are shaped according to adapt to a turbulent environment have better credibility and increasing performance (John and Martin, 1984).

The increasing complexity in the business environment has reached to the maximum level that ever has. This complexity derives in part from exponential increases in organizational information processing capabilities, an increasingly dynamic and global business environment, and increasing amounts of information about both the content and structure of this environment (Satish, 1997). Growing environmental complexity offers organizations both problems and opportunities (Neill et al., 2007). According to Boisot and Child (1999) organizations can either reduce or absorb this complexity. They can reduce complexity focus internally and attempt to buffer their internal systems from the distractions of environmental change. They consider multiple competing interpretations when formulating response to these complexities (Gell-Mann, 1994). As Weick (1995) interprets the success and adaptation to the changing environment surrounding the organizations is achieved by developing more varied images of the environment, with "engaging in sense-making that is more adaptive"

In the highly changeable and uncertain market in which they operate, it is important for new venture managers to invest in formal processes to acquire and use market information, regardless of whether the market is emerging or established (Song, Wang and Parry, 2009). The study of Quintas, Lefrere and Jones (1997) suggests that the management of knowledge, and its correlate intellectual capital, can be a key source of organizational advantage. Knowledge management in an organizational context does not mean managing everything that is known (assuming it could be gathered together in some way). It is concerned with creating and mobilizing certain knowledge (some of which an organization may not even know it has) for certain purposes (such as competitive advantage or greater efficiency). This debate supports the following hypothesis:

H3: The performance impact of environmental scanning in SMEs is moderated by market dynamism.

The Moderating Role of Market Dynamism in Planning Flexibility-Performance Relationship

Market dynamism refers to frequent changes in the industry, including changes of market elements such as customer demand, technology, competitor structure, etc. (Achrol and Stern, 1988; Jap, 1999). Frequent change in an industry decreases strategic certainty and increases the difficulty of accurate planning, forecasting and cost reductions (Sheth and Parvatiyar, 1992). In highly dynamic markets, frequent changes in customer demand, business practices, etc., require firms to quickly modify their products or services to remain competitive in the market (Jap, 1999).

A longstanding question in strategy and organization theory is how the amount of organizational structure shapes performance in dynamic environments. Given its fundamental importance, this question has been explored in a variety of research traditions, ranging from organizational studies (Burns and Stalker, 1961; Hargadon and Sutton, 1997) and competitive strategy (Rindova and Kotha, 2001; Rothaermel, Hitt, and Jobe, 2006) to network sociology (Uzzi, 1997; Owen-Smith and Powell, 2003) and, more broadly, the complexity sciences (Kauffman, 1993; Anderson, 1999).

According to Lau (1996), flexibility has become the most important factor in achieving competitive advantage. In order to remain competitive, however, flexibility in dealing with rapid change must not result in a loss of productivity and quality (Ahmed et al., 1996; Volberda, 1998).

One of the main problems facing managers with regard to flexibility is how to balance change and continuity (Dreyer and Grønhaug, 2004) i.e. face the consequences of market dynamism. Many issues have attracted more attention in strategy research than the relationship between the mode of strategic planning adopted by the firm and the economic performance of the firm. Decades of planning/performance research have yielded inconsistent findings (Brews and Hunt, 1999). One methodological explanation for the inconsistencies and perhaps the most serious indictment of early planning/performance research stems from the poor conceptualizations and measurement protocols utilized to operationalize the planning construct (Boyd, 1991). Following the inconsistent and often counterintuitive findings emerging from the first two waves of planning/performance research (Pearce et al, 1987) more sophisticated Guttman scaling techniques (Guttman, 1944) were employed to measure the planning construct of planning/performance research (Pearce et al., 1987).

The impact of environment on the type of planning employed by firms is seen as the second reason of the inconsistencies between firms' planning and market dynamism. Some studies (Eisenhardt, 1989; Goll and Rasheed, 1997; Hart and Banbury, 1994; Miller and Cardinal, 1994; Miller and Friesen, 1983; Priem, Rasheed and Kotulic, 1995) found that formal strategy making processes or planning are positively associated with firm performance in unstable, turbulent or dynamic environments. Other studies emphasize formal strategic planning is best suited to stable environments (Fredrickson, 1984; Fredrickson and Mitchell, 1984; Fredrickson and laquinto, 1989; Mintzberg, 1973) but recommend incrementalism for unstable, complex, dynamic environments facing high uncertainty, discontinuity and/or rapid change. Schwenk and Shrader (1993) found that formal strategic planning has a positive impact on firm performance. More recently, Coviello et al. (2000) reported that managers in small firms believed their firms would benefit from the use of formal planning processes. However, they did not examine the relationship between formal marketing processes and performance.

Following industrial developments, emphasis in academic research has turned to the use of manufacturing flexibility as a response to dynamic environments. Miles and Snow (1978) argued that a proactive approach is required of firms that operate in dynamic environments. Bourgeois (1985) argued against Thompson's (1967) view that "buffering the technical core" enables firms to deal with environmental dynamism. Bourgeois (1985) empirically demonstrated the pitfalls of such an approach by showing that reducing the need for flexibility by using long-term contracts and buffers would only be beneficial in stable environments.

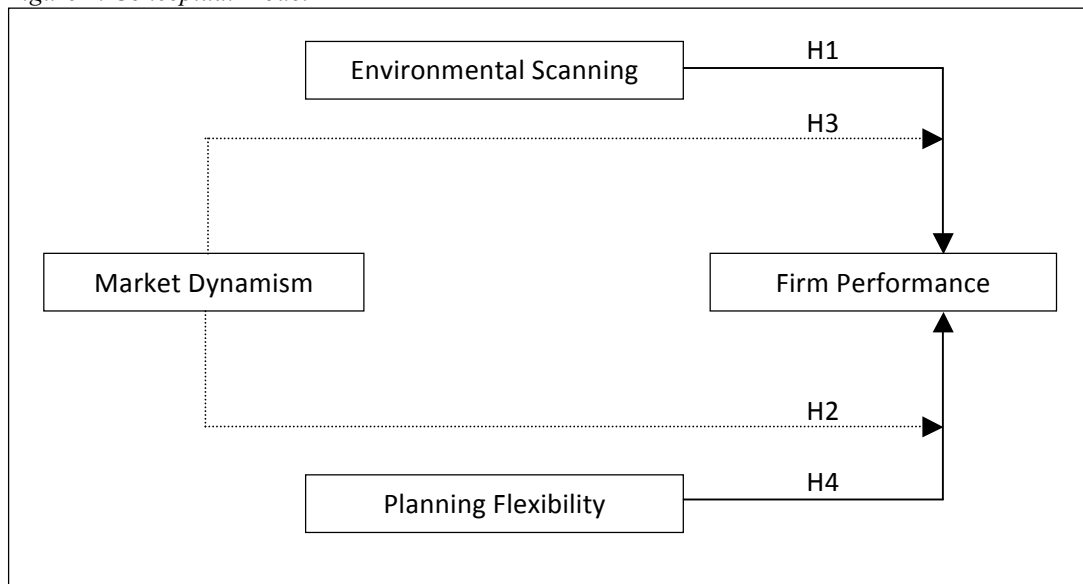
The literature describes a number of well-developed dimensions of planning strategies that describe different possible modes of variation (D'Aveni, 1994). Furthermore operations scholars have classified the ways in which production can be flexible (Gerwin, 1993). However the studies of Anand and Ward (2004) show that the market dynamism plays a crucial role in determining the types of flexibility strategies that would be suitable while it is very important to recognize the importance of environmental fit when considering flexibility. Moreover, Grant and Cibin (1996) argues that development of structures and systems which retain the scale and resource advantages of large organizations, while developing the flexibility and responsiveness needed to compete effectively within the dynamic and unpredictable market environments. The researches have included velocity (Eisenhardt, 1989), complexity (Gavetti, Levinthal, and Rivkin, 2005), and ambiguity (March and Olsen, 1976; Rindova and Kotha, 2001) as major dimensions of environmental dynamism. But though these dimensions have intriguing implications for strategy and performance (see below), only unpredictability influences optimal structure (Davis, 2009). This is also backed up by the studies of Dreyer and Grønhaug (2004) as he claims that it is possible to achieve sustained competitive advantage in highly uncertain environments.

As a result we hypothesize:

H4: The performance impact of planning flexibility in SMEs is moderated by market dynamism.

Based on the above mentioned literature discussion and proposed hypotheses we develop a conceptual model of relationships – depicted on Figure 1- to be tested empirically.

Figure 1. Conceptual Model



METHOD

Data Collection

Scope, hypotheses, research model, scales used in research and sample will be explained in this section. This study has been constructed on both theoretical and practical bases. Theoretical section has been prepared via extensive literature search and reported above. Data needed for field search has been collected through

face-to-face questionnaire technique with top executives of the SMEs in the Turkish manufacturing industry. The sampling frame consists of randomly selected 600 firms among 1200 manufacturing SMEs. As a result, the effective sample size of the study is 400. Gathered data have been analyzed in SPSS (Statistical Package for Social Sciences) software.

Measurement of Constructs

The constructs in our study are developed by using measurement scales adopted from prior studies. All constructs are measured using five-point Likert scales with anchors strongly disagree (= 1) and strongly agree (= 5). 6 items for measuring environmental scanning are adopted from Barringer and Bluedorn (1999) and additional 2 measures are self-developed. The planning flexibility scale (6 items) is also adopted from Barringer and Bluedorn (1999). Similarly, 2 items are taken from Homburg et al. (1999) to measure different aspects of firm performance which are market share and earning profits in addition to 3 self-developed measures. Lastly, 3 items are self-developed and another 3 items are selected from Appiah-Adu and Singh (1998) and Pelham and Wilson (1996) in order to measure market dynamism. Self-developed items are shown with an asterisk (*) symbol in Table 1.

Measure Validation

In this section we have first calculated the factor loadings of the items grouped under different factors via Principal Component Analysis by Varimax Rotation Method. When 400 executives are surveyed they provided numerical answers to the questions according to their perceptions. All scales with numerical answers representing the opinions of the executives were initially submitted to exploratory factor analysis with Varimax Rotation. The factor analyses produced totally four factors as anticipated as shown in Tables 1 - with a total variance explanation (TVE) of 54.80 %.

Table 1. Rotated Component Matrix for the questionnaire items

Items	Components' Factor Loadings			
	Environmental Scanning	Firm Performance	Planning Flexibility	Market Dynamism
Economic trends	,780			
Technological trends	,764			
Supplier strategies	,698			
Demographic trends	,686			
Distributor strategies*	,628			
Customer needs and preferences	,606			
Threats and opportunities*	,590			
Competitor strategies	,585			
Return on sales (ROS)*		,913		
Return on assets (ROA)*		,909		
Earning profits		,874		
Market share		,708		
Total volume of sales*		,654		

The emergence of an unexpected threat			,751	
Changes in governmental regulations			,750	
The emergence of an unexpected opportunity			,745	
The emergence of a new technology			,699	
Political developments that effect your industry			,693	
Shifts in economic conditions			,557	
Complexity, divergence and incomprehensibility of competitor behaviors*				,758
Complexity, divergence and incomprehensibility of customer needs*				,739
Constant changes in competitor's strategies/actions				,720
Rate at which products/services become obsolete				,670
Different and complex product combinations*				,666
Changes in customer needs				,642
Variance explanation ratios	15,538	14,089	12,931	12,242

Total variance explained: 54,800

Extraction method: Principal Component Analysis.

Rotation method: Varimax with Kaiser normalization.

Internal consistency or scale reliability is a commonly used psychometric measure in assessing survey instruments and scales. Internal consistency is an indicator of how well the different items measure the same concept. This is important because a group of items that purports to measure one variable should indeed be clearly focused on that variable. Internal consistency is measured by calculating a statistic known as Cronbach's coefficient alpha (Zhang, 2000; Cronbach, 1951; Nunnally, 1967). Specifically, the item-score correlations are used to determine whether an item belongs to the scale as assigned, to some other scales, or should be eliminated. The scale-score is obtained by computing the arithmetic average of the scores of the items that comprise that scale. The values of item-to-scale-correlations should be greater than ,7; those lower than ,7 do not share enough variance with the rest of the items in that scale. Therefore, it is assumed that the items are not measuring the same construct and it should be deleted from the scale. All scales exhibits adequate internal consistency with Cronbach alpha coefficients greater than ,7 (Nunnally, 1967). Our scores range from 79,79% to 88,77%. Consequently, each item contributes to the derived scale index and is therefore a valid indicator of the relevant construct. Cronbach's Alpha Scores (%) are provided in the Table 2.

Regarding to the results of the above statistical tests for validity and reliability, we assumed that our factors are sufficiently valid and reliable to test our hypotheses. Accordingly we produced four constructs to be used in the further tests, namely, environmental scanning, firm performance, planning flexibility and market dynamism.

Table 2. Reliability Scores of the Study Variables

Variables	Environmental Scanning	Firm Performance	Planning Flexibility	Market Dynamism
Cronbach Alpha Scores (%)	83,88	88,77	80,59	79,79

Analysis

Pearson Analysis

Table 3. Pearson Correlations

	Environmental Scanning	Planning Flexibility	Market Dynamism
Planning Flexibility	,341(**)		
Market Dynamism	,175(**)	,032	
Firm Performance	,280(**)	,122(*)	,083

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed). Two-tailed Pearson Correlations.

Pearson correlations are computed between the variables in Table 3. The correlation matrix shows statistically significant correlation in the expected direction between environmental scanning and firm performance ($p < 0.01$). Market dynamism is correlated positively with environmental scanning on a lower level ($p < 0.01$). However, one can easily perceive that there is an unexpected but strong correlation between planning flexibility and environmental scanning ($p < 0.01$) which leads us to perform further analysis for a possible mediator effect. There is also a positive correlation between planning flexibility and firms' overall performance ($p < 0.05$) however it loses its significance because of above mentioned strong planning flexibility-environmental scanning association that will be reported later on.

Hypotheses Tests

Direct Effects (H1-H2)

Table 4. Direct Effects

	Variables	Standardized Beta Coefficients	t	Significance
	(Constant)		6,816	,000
H1 (supported)	Environmental Scanning	,263	5,060	,000
H2 (rejected)	Planning Flexibility	,031	,605	,545
	Market Dynamism	,036	,730	,466
		R ²	,074	
		F	11,560	,000

a Dependent Variable: Firm Performance

Table 4 provides an insight of the direct effects among environmental scanning, planning flexibility and market dynamism by using statistical results of the analyses we have conducted. Our first hypothesis (supported) has a high standardized beta coefficient (,263) compared to our second hypothesis (,031 and ,036). From this outcome, we can commend that environmental scanning has a highly significant impact on the firm performance. However, the effect of planning flexibility on the firm performance is dramatically low that enables us to reject the second hypothesis. Moreover, market dynamism is found to be ineffective again on firm performance.

Moderating Effects (H3-H4)

Table 5 shows that product (multiplication / interaction) of environmental scanning and market dynamism exerts a significant impact (a standardized beta coefficient of ,275) on firm performance which provides support for the third hypothesis. Conversely, the interaction of planning flexibility and market dynamism

does not demonstrate a considerable effect on firm performance. That makes us to reject the fourth hypothesis. Accordingly, we accept that when market dynamism is high, the positive relationship between environmental scanning and firm performance is increasing. But, as for the planning flexibility-performance relationships such a moderating effect of market dynamism is not confirmed.

Table 5. Moderating Effects

	Variables	Standardized Beta Coefficients	t	Significance
	(Constant)		27,563	,000
H3 (supported)	Environmental Scanning * Market Dynamism	,275	2,751	,006
H4 (rejected)	Planning Flexibility * Market Dynamism	-,092	-,919	,359
		R ²	,035	
		F	8,269	,000

a Dependent Variable: Firm Performance

Test of Non-hypothesized Relations (The Mediator Role of Environmental Scanning)

Correlation coefficients uncover the existence of one-to-one relations among each of the variables except market dynamism. The planning flexibility is correlated to environmental scanning (,341**); and firm performance (,122*); and also environmental scanning is correlated to and firm performance (,280**). Furthermore, the regression analyses indicate that the correlation between planning flexibility and firm performance disappears when regressed together with environmental scanning. Though, we have decided to investigate an overshadowing effect of environmental scanning in the relationship between planning flexibility and firm performance. In order to do so, we initially regressed all the two independent variables together with firm performance in the first model; then we regressed just planning flexibility in the second. Results approve the mediator role of the environmental scanning, since the one-to-one correlation of planning flexibility to performance disappears due to the overshadowing effect of environmental scanning. In other words the effect of planning flexibility on firm performance follows a path through environmental scanning. Table 6 and Table 7 show those findings.

Table 6. Effects of Environmental Scanning and Planning Flexibility Together

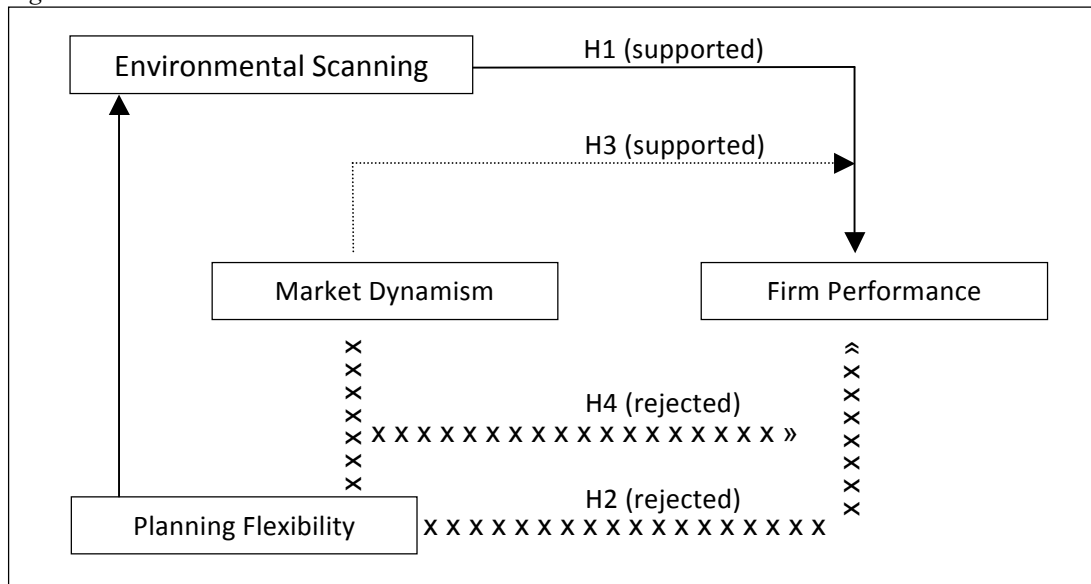
	Standardized Beta Coefficients	t	Significance
(Constant)		7,387	,000
Environmental Scanning	,270	5,271	,000
Planning Flexibility	,030	,584	,560
	R ²	,075	
	F	17,095	,000

Table 7. Effect of Planning Flexibility Alone

	Standardized Beta Coefficients	t	Significance
(Constant)		12,460	,000
Planning Flexibility	,122	2,450	,015
	R ²	,012	
	F	6,002	,015

Based on the above mentioned findings about the relations among study variables, we can develop a final model. Findings show that, the direct effect of environmental scanning on firm performance (H1) and the moderating role of market dynamism in this relationship (H3) are supported. However the direct effect of planning flexibility on firm performance (H2) and the moderating role of market dynamism in this relationship (H4) are not supported. Furthermore, the results of the mediation analyses, it is also found that environmental scanning plays a mediator role in the overshadowed correlation between planning flexibility and firm performance. Thus the resulting model emerges as depicted on Figure 2.

Figure 2. Final Model



DISCUSSION

Summary of the Findings

The main aim of this study was to show the associations between the levels of environmental scanning and planning flexibility together with the moderator role of market dynamism on firms', especially SMEs' overall performance. In order to uncover the complex path of these relationships better adapt to the market environment and perform well; a large scale survey has been conducted with 400 SME executives in Turkey.

In order to provide answers and plausible explanations for this study's research questions mentioned above, we have developed and tested four related hypotheses parallel with the previous literature. The measures which were adopted from previous international studies and applied to a Turkish sample proved to be valid and reliable according to the findings of factor analyses and Cronbach's alpha scores.

Our first hypothesis "H1: The level of environmental scanning in SMEs will be positively related to their firm performance", is accepted; this is a finding which is parallel with the previous literature. For instance, Daft et al. (1988) in their studies have already showed that organizations that scan their environment effectively can have an information advantage over those that do not, and become better aligned with the external conditions. Moreover the studies of Hambrick (1981), Choo (1999), Saxby et al. (2002) Albright (2004), and Nastanski (2004) show consistent similarities with our findings.

Our second accepted hypothesis is the assertion that "H3: The performance impact of environmental scanning in SMEs is moderated by market dynamism". Dess and Beard (1984) describe dynamism as the rate and the unpredictability of change in a firm's external environment and is particularly important because of its influence on relationships between a variety of firm-level constructs and firm performance. Accordingly, we can infer that the interaction between the dynamism of the market and the firm's ability to grasp information and intelligence pertaining to this marketplace changes and developments better than the competitors will automatically produce better competitive outcomes. In other words, efforts of environmental scanning can turn the challenges of market dynamism to precious market opportunities, for instance as in the case of discovering latent or newly emerged customer needs.

Surprisingly, our two hypotheses especially related to planning flexibility; "H2: The level of planning flexibility in SMEs will be positively related to their overall performance" and "H4: The performance impact of planning flexibility in SMEs is moderated by market dynamism" are rejected. On the one hand, our

correlation results show that planning flexibility does indeed have a significant impact on the firms' performance; a finding which is parallel with the previous studies (e.g. Rhyne, 1986; Miller and Cardinal, 1994; Brews and Hunt, 1999; Andersen, 2000; Delmar and Shane, 2003). However, on the other hand, our regression analyses indicate that the correlation between planning flexibility and firm performance disappears when regressed together with environmental scanning. In other words, this finding led us to think of an overshadowing mediator role of environmental scanning in the correlation between planning flexibility and firm performance.

Before dealing with this mediation, we need to try to provide some plausible explanations for the rejection of H4 (the moderator role of market dynamism in the planning flexibility and firm performance relation). The studies of Ansoff (1979); Lorange (1980); Grinyer et al. (1986); Chakravarthy (1987); Hax and Majluf (1990) have already showed that organizations with flexible structures and processes are awarded by the notion of environmental uncertainty -or market dynamism- by means of showing better adaptation to external conditions. However, in our case of small firms in a developing nation, the combination of challenges coming from dynamism (rapid external changes) and planning flexibility (rapid internal changes) may lead in some firms with a strong strategic intelligence, direction and leadership to better performance, but in some other firms to a chaos and failure as well. In other words, efforts of continuously revising (whether corrective or damaging) the strategic plans to the challenges provided by the rapid changes of the dynamic marketplace, do not guarantee a better performance, perhaps because of the lack of scanning of the marketplace and accumulation of necessary market knowledge leading to not only reactive but also proactive and possibly corrective actions in the firm's strategies and tactics.

As for the examination of a possible mediator role of environmental scanning in the correlation between planning flexibility and firm performance, we conducted two more regression analyses and confirm a new path of relations which were not asserted by formal hypotheses. The resulting model of the relations among study variables show us that especially in the dynamic markets, firms that try to revise and adapt their plans to this dynamism and outperform the rivals should collect in depth market intelligence to turn challenges to opportunities.

Managerial Implications

According to the results of this study, we observe that environmental scanning is crucial for the organizations' success, especially for the SMEs.

Market Dynamism: our study indicates that market dynamism plays an important role in firms' performance by providing challenges that may function as hurdles or opportunities. Such as changes in customer needs, complexity, divergence and incomprehensibility, different and complex internal and external factors play a major role in the competition.

Environmental Scanning: With this study managers can observe how micro and macro factors influence the firms' performance. By successfully grasping of new developments in the task and general environments firms may survive through and even benefit from the challenges of the rapidly changing markets. Especially customer and competitor orientations are very critical for the generation of market intelligence and new product and/or venture ideas.

Planning Flexibility: With this study, managers can understand that planning flexibility alone is not sufficient enough to increase the firms overall performance in dynamic markets. Decisions to revise the plans should be supplemented by fresh and accurate market intelligence; and accordingly new or renewed business ideas and plans can flourish.

Limitations and Further Research Implications

The above implications suggest several directions for future research. However there are limitations in our study as this study was constructed in Turkey and Turkish firms are observed in order to have a result. This brings the importance of cultural effects into the consideration. It was intentionally omitted as culture itself is another subject for a detailed study. So the results may be biased according to the Turkish business culture and ethics. Also the number of the firms which was worked is limited to 600 over 1200 SMEs, since our time and budget was limited.

Future researchers may come up with different results than ours if the origins of the companies which will be worked differ than ours. Moreover, our results provide consistency with the previous studies and is believed to help managers on their decisions, however current changes in trends may create inconsistencies with the result.

We also look forward to future studies incorporating antecedents for planning flexibility studying its relationships with environmental scanning and firm performance by using a larger number of responding firms maybe more geographically divergent sample.

CONCLUSION

This paper trying to investigate the direct effects of environmental scanning and planning flexibility on firm performance in SMEs and also the moderating effects of market dynamism on both relations, provide some interesting findings and implications. Flexibility itself is not producing better performance especially when dynamism is high, but scanning is. While the combination of dynamism and flexibility is not so much fruitful. Beyond this discussion, another point is that, if supplemented with scanning flexibility turns to be impacting on performance. Therefore, environmental scanning moderated by the market dynamism is the missing link with on the long and difficult route from planning flexibility to firm performance.

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EVALUATION OF THE PARADOXES IN STRATEGY FORMATION FROM THE PERSPECTIVES OF STRATEGIC MANAGEMENT SCHOOLS

**Refika Bakoğlu Deliorman,
Marmara University, Turkey**

**Süleyman Ağraş,
Düzce University, Turkey**

ABSTRACT

Strategy formation is a subject that discussed over 30 years in strategic management literature and yet there isn't a consensus on it. The focus point of this subject is how organizations will form the strategies that they need. The perspectives that came to literature in strategy formation are deliberateness and emergentness. The views of strategic management schools on the subject of strategy formation have shaped around these two paradoxes. The aim of this study is to evaluate the views of strategic management schools on paradoxes in strategy formation and to analyze which perspectives related with which paradox based on the secondary data. The results of the study shows that whereas the perspectives of design, planning, positioning, environment and game based schools focused on the paradox of emergentness intensely, the perspectives of learning, power, cognitive and resource based schools are related with the paradox of deliberateness. However, it is observed that the entrepreneurial and configuration schools can be based on the integrated paradox that combined from the paradox of deliberateness and emergentness.

Keywords: Strategy, Strategy Formation, Paradoxes, Strategic Management Schools.

INTRODUCTION

One of the main questions in strategic management literature is that how the process of strategy formation can be made most effective. Many conflicting opinions have been reported on the best way of forming strategies. The most confusion has been between different definitions of strategy as it is pattern of decision to some scholar while it is pattern of actions to the others. To distinguish these two definitions of strategy, Mintzberg and Waters (1985) have proposed to refer to the former as intended strategy and the latter as realized strategy. According to them realized strategies could come about from the intended strategy as deliberate strategy and/or emergent strategy despite or in the absence of intentions. Hence the emergent strategy and deliberate strategy seems to contradictory and appears to be true at the same time emergentness and deliberateness could be viewed as paradoxes of strategy formation (De Witt and Meyer 1998).

Although, the views, opinions and definitions on strategy formation came around two paradoxes as deliberateness and emergentness, there is a strong need for interrelation of these paradoxes with strategic management schools. In this study it is tried to answer the question of which strategic management school's focus points are close related with the deliberateness and emergentness or both of them? In this context, by using a holistic approach the views of design, planning, positioning, learning, power, resource-based, environment, game-based and entrepreneurial schools on the subject of strategy formation are analyzed and interrelated. This study will contribute to the strategy formation both in the related literature and practice.

The main construct of the research, is to analyze and inter-relate the perspectives of strategic management schools with paradoxes in strategy formation. By taking the context and content of the study into consideration, the secondary data in the literature are analyzed. After generating a comprehensive framework on the subject it is offered some relational matrixes that correlate the perspectives with paradoxes. In

examining this, it is referred from the points of initiator authors of the schools. In this process books, papers and articles (both theoretical and empirical findings) are included to indicate the correlations.

PARADOXES IN STRATEGY FORMATION

There are different perspectives on what strategy formation is and which dimensions it contains. According to Mintzberg, (1978: 934) the literature on the title of forming strategies for private sector and making policy for public sector deals with the question of how strategies will form. Slater and et al (2006:1221) also stated that (with its focus point mentioned above) the subject of strategy formation was in the central of strategic management during three decade. From the different perspectives on the subject the main questions of strategy formation can be summarized as follows (Mintzberg, 1978: Blair and Boal, 1991):

- How strategies form in organizations?
- Are strategies must be planned previously or emerged during the time?
- What is the best way of forming strategies in organizations?

However, Sloan, (2005; 4) stated that strategy formation is related with the strategic alternatives, aims and directions of enterprises and based on which roads they will or should follow. In the field of strategy, strategic management schools set forth strategy formation with its merits and definitions. The views of the schools are shaped around two main paradoxes as deliberateness and emergentness (De Witt and Meyer 1998). The paradox of deliberateness is the first and most known approach on strategy formation as planning perspective. It is based on strategy formulation and implementation traditionally. According to this approach the process of strategy formation is rational, analytical, designable, certain and measurable and depth analyses can be done in the process and both planners and implementers are exist as it depends on mainly distinction between thinking and doing (Mintzberg, 1994). For example, the leader of a company determines and plans the strategy and middle managers implement typically (Aken and Opendakker, 2005:2; Slater and et al. 2006:1223). In contrast, in the paradox of emergentness the strategy formation is a simultaneous action (see the table below for the distinction between the two extreme positions). Mintzberg and McHugh (1985:162) described the roots of emergentness as enterprises can also follow their strategies without targeted and determined previously. According to authors strategy formation is a dynamic learning process. However from some studies (as in Bakoglu, 2000; Andersen, 2004), it can be emerged an integrative perspective by combining the two paradox. So beside the two main paradoxes the integrated perspective and its emerging conditions will be referred in the study. The findings in this study suggest a classification and categorization the views of strategic management schools to these three paradoxes.

Table 1: Planning versus Incrementalism Perspective

	Planning Perspective	Incrementalism Perspective
Emphasis on	Deliberateness over emergentness	Emergentness over deliberateness
Nature of Strategy	Intentionally designed	Gradually shaped
Nature of Strategy Formation	Figuring out	Finding out
Formation Process	Formally structured and comprehensive	Unstructured and fragmented
Formation Process Steps	First think, then act	Thinking and acting intertwined
Focus on strategy as	Pattern of decisions (plan)	Pattern of actions (behavior)
Decision -making	Hierarchical	Political
Decision-making Focus	Optimal resource allocation &	Experimentation and parallel

	coordination	initiatives
View of Future Developments	Forecast and anticipate	Partially unknown and unpredictable
Posture towards the Future	Make commitments, prepare for the future	Postpone commitments, remain flexible
Implementation Focused on	Programming (organizational efficiency)	Learning (organizational development)
Strategic Change	Implemented top-down	Requires broad cultural and cognitive

Source: DeWitt, B. and Meyer, R. (1998). *Strategy: Process, Content, Context*, London: International Thomson Business Press, p. 158.

STRATEGY FORMATION PARADOXES FROM THE PERSPECTIVE OF STRATEGIC MANAGEMENT SCHOOLS

The two paradoxes in strategy formation and the one that is drafted by combining them are the main discussion topics related with how strategy formation should be shaped. In Mintzberg and et al (1998), there is a classification on strategic management schools and their basic premises. Before giving the findings about the perspectives of strategic management schools on paradoxes in strategy formation, it will be more functional to exhibit the main definitions of them on what strategy formation is (see definitions in the Table 2 below).

The perspective of *Design School* in strategy formation paradoxes will be evaluated firstly as it is the first school in strategic management literature and its keywords are the basics of strategic management courses and strategy implementations. The main perspective of strategy formation is, used as strategy formulation rather than formation in the school developing and implementing strategy is separate and different process as formulation-implementation. Beside this as seen also from the definition of it to strategy formation, design school sees strategy formation process as formal, controllable and as simple as possible (Mintzberg, 1990; 171–179). By taking these points it's understood that design school's perspective fits to the paradox of deliberateness by making a clear distinction between thinking and doing in strategy formation.

Table 2: Strategy Formation Definitions of Strategic Management Schools

School	Author(s)	Definition of Strategy Formation
Design	P. Selznick (1957) A.D. Chandler (1962)	Strategy formation is to provide appropriateness between internal power-weakness and external opportunities-threats.
Planning	H.Igor Ansoff (1965)	Strategy formation is a deliberate and mental process of developing strategies exactly and implementing them formally.
Positioning	Sun Tzu,(M.Ö. 2000) M. E. Porter (2008)	Strategy formation is a process of choosing a generic position based on analytical computation.
Entrepreneurial	J.A.Schumpeter (1934)	Strategy formation is a process that starts with the vision of a leader.
Cognitive	H.A.Simon & J.March	Strategy formation is a mental process in the mind of strategists.

Learning	M.Cyert and J.G.March (1963) Mintzberg (1985;1996)	Strategy formation is learning process generates during the time and don't separate from strategy implementation.
Power	J.Pfeffer G.R. Salancik, (1978)	Strategy formation is negotiation and bargaining process between different groups in an organization.
Environment	M.T.Hannan and J.Freeman. (1989)	Strategy formation is a reactional process to environmental changing's.
Configuration	A.D.Chandler, R.E.Milles and C.C.Snow	Strategy formation is a transformation process of the messages taken from other schools.
Resource-Based	J. B. Barney (1991)	Strategy formation is a choice in the context of firm resources and strategic alternatives.
Game Based	A. Brandenburger and B. Nalebuff (1995)	Strategy formation is making great leaps forward by seeing the integrity between the parts.

Source: Adapted from Mintzberg and et al, 1998 and Sarvan and et al. 2003.

The pioneer of *Planning School* is H. Igor Ansoff and the school is developed based on his book of *Corporate Strategy* in 1965. There are some similarities between planning and design schools in basic assumptions to strategy formation. (Sarvan and et al., 2003;75). The planning school advocates differently from design school that determining aims of firm in long-term and shaping firm recourses and decisions around the aims. However, Andrew (1994) also stated that the perspective of planning school to strategy formation is formulation-implementation as in design school. Namely, all optimum strategic alternatives define and an analytical process conducts before implementing firm strategy (Altunoğlu, 2001, 61–63). In conclusion the perspective of planning school is fit to the paradox of deliberateness.

Another strategic management school is positioning that its merits based the study of Sun Tzu “The Art of War” B.C. 2000. The focus points of *Positioning School* are the industry structure, competition conditions, and firm position in an industry. According to Porter (2008) five forces shape the structure and competitive conditions of an industry. These are competitors, suppliers, customers, substitutions and buyers. Porter (2008) stated that the start point of strategy formation understands these forces and their impact on competitive conditions of an industry. According to positioning school, strategy formation is an analytical process that focused on analyzing the data about the industry and choosing the optimum and comprehensive strategy. Acar and Zehir (2009: 411) stated that many academicians studied the Porter’s generic strategies and there are similar views on a well planned strategy will provide firm success among them. From the point of the discussions on the perspectives of positioning school to strategy formation, it is understood that the paradox of deliberateness is the approach of this school.

Entrepreneurial School is another strategic management school. According to its perspective on strategy, strategy formation process is focused on the vision of a leader. Some of the basic assumptions of entrepreneurial school are (Mintzberg and et al. 1998):

- Strategy is perspective of the vision that is determined by the leader for the future of an organization,
- Strategy formation process is semi-structured and shaped around the experiences of a leader.
- Leadership and vision are critical factors for strategy formation.

Form the assumptions above; the perspective of entrepreneurial school on strategy formation is overlap with the integrated paradoxes of deliberateness and emergentness. Because strategy formation is seen a semi structured process and can be adapted to changes and also the vision of a leader can be revised.

Cognitive school is another school in strategic management. It assumes that strategies thus emerge as perspectives - in the form of concepts, maps, schemas, and frames - that shape how people deal with inputs from the environment (Pelling, 2004). Cognitive school sees strategy formation as a cognitive process that take place in the mind of the strategist. Its other assumptions about strategy formation are as follow (Mintzberg and et al, 1998; Pelling, 2004):

- These inputs flow through all sorts of distorting filters before they are decoded by the cognitive maps.
- As concepts, strategies are difficult to attain in the first place, considerably less than optimal when actually attained, and subsequently difficult to change when no longer variable.

As noted above cognitive school sees strategy formation as in the perceptions and mental processes in the mind of strategists. These points' shows that strategy formation is a dynamic action because of perceptions and their resources can change easily. It can be interpreted that the perspective of this school overlaps with the paradox of emergentness.

Learning School can be considered as the milestones in strategy formation as its views are based on the criticisms of design and planning schools. The origin point of criticisms of the two previous schools arise from some studies on Mintzberg's *Patterns in Strategy Formation* (1979, 1985, 1994, 1996), Mintzberg and Mc Hugh's "*Strategy Formation In An Adhocracy*" (1985) and Quinn's "*Strategies for Change: Logical Incrementalism*" (1980). Some assumptions and criticisms of the learning school are (Altunoğlu, 2001, 61–63):

- Determining the aims of a firm by only top managers in certain striation isn't practical for real business world. There should be a consensus on the aims between different stakeholders.
- Strategies can't be developed because the future can't be predicted exactly and comprehensive analyzes can't be conducted in the light of the data on the future.
- Strategy formulation and implementation is simultaneous.

The views submitted by the pioneers of learning school are focused on the synchronicity of strategy formulation and implementations. Strategies should be formed during a dynamic learning process. From the points of views above it can be said that the perspective of learning school is one of the foundation of paradox of emergentness perspective.

Power School is another strategic management school. The power school is developed based on the approaches of contingency and resource dependence. The basic studies of power school are Hickson and Hinnings's "*A Strategic Contingencies Theory of Intraorganizational Power*" (1971) and Pfeffer and Salancik's "*The External Control of Organizations: a Resource Dependence*" (1978). According to power school there are two power factors as micro and macro in strategy formation process. Micro power is related with politics in organization whereas macro power related with the using the power that organization has. Strategy formation is shaped by using these powers and politics. On the one hand, micro power effect strategy formation in inside of organization as in the process of coalitions, bargaining, persuasion and power relations that arises between different groups. On the other hand macro power sees organizations as they maneuver to control or other organizations or collaborate with them (Mintzberg, and et al. 1998; Sarvan and et al. 2003; 95). Briefly, power school sees strategy formation as the interactions between the two powers. By taking these dynamic interactions it is concluded that the perspective of power school to strategy formation is related with the paradox of emergentness closely.

Environment School is another strategic management school and based on contingency theory and population ecology theory. The basic assumptions of power school related with strategy formation are like these (Mintzberg and et al. 1998; Koçel, 2003; 355).

- Environmental powers should be taken into consideration during strategy formation.
- Forming strategy is a reactional process to environmental powers and changing's.
- Strategies should be formed according to the structure of environment and effect of it on organization.

The structure and affects of environment on organizations force them to form different strategies and behaviors as, mergers consortiums, strategic alliances and interlocking directorates (Koçel, 2003; 355). The perspective of environment school is related with the paradox of deliberateness as it depends on distinction between thinking and doing in strategy formation, and the school prescribes strategy be formulated according to the environmental forces as being accepted environment has a deterministic effect on firm strategies, and it shapes the strategy.

Configuration School is another school in strategic management that assumes the strategy formation is the process of integrating different messages or inputs about the environmental conditions. Configuration school

describes the states of an organization as configuration and strategy making as transformation. Transformation is the inevitable result of an organization moving from one state to another. Mintzberg (1979) argues that “it all depends” approach of contingency theory does not go far enough, that structures are rightfully designed on the basis of a third approach, which is called the “getting it all together” or configuration approach by him. The basic premises of the school are as in the following (Marcus, 2009);

- Most of the time an organization is in some kind of stable configuration in terms of its characteristics and structure,
- The strategy making can take many different approaches depending on the configuration of the organization.
- The strategies may take the form of plans, patterns or perspectives depending on its time and situation.

It is seen that according to its basic premises there could be different configurations in strategy formation at different stages of the organization and environment. It can be stated that there is a strong emphasize on changeability in forming strategies when these premises of the school take into account. As a result, it is rather clear that the perspective of configuration school is come around the integrated paradox that combined from the two basic paradoxes.

Another school in strategic management is Resource-based view that mainly tries to answer the question of what is the source of firm’s competitive advantage. This school has been developed based on the studies of Barney (1991; 2001). According to the principles of Resource-based view, sustainable competitive advantage of a firm depends on having and using inimitable, important and scarce resources in an industry. Resource based view assumes there are strong relations between firm resources and strategic alternatives. Firms should regard a resource policy in strategy formation process for effective strategies.

There are different perspectives on relationships between resource based view and strategy formation. For example Sevicin (2006) stated that in the context of resource based view, firm strategies should be formed based on gaining competitive advantage by using resources effectively. According to this thought the competitive advantage of a firm is related with resources rather than external environment. Resource based view sees also firms as the actors that operate in an uncertain environment in which the rules aren’t defined exactly Bakoğlu, (2005; 3). From these points it can be interpreted that resource based view sees strategy formation as a work of counterbalancing between firm resources and external environment simultaneously. This case put forth a dynamic perspective on strategy formation. In conclusion it is understood that the perspective of resource based view school is related with the paradox of emergentness rather than deliberateness.

Game-based is one of the latest schools in strategic management literature. The roots of it date back to the book of *Theory of Games and Economic Behaviour* which is written by *John von Neumann* who is a genius mathematician and *Oskar Morgenstern* who is an economist. However Game based school brought a different perspective to strategy formation after the studies of Adam Brandenburger and Barry Nalebuff. The authors proposed a framework for strategy formation in their article of *The Right Game: Use Game Theory to Shape Strategy*. In this framework it is proposed that firms should take into account the impacts of main player in a business game. The players are the firm itself, its competitors, substitutions and complementors. According to game based school firms should determine their roles and relations with other player during strategy formation process. The main relationships related with strategy formation are as in the following;

- Changing the game,
- Changing the players,
- Changing the added values
- Changing the rules
- Changing perceptions (by using tactics)
- Changing the scope of the game

Game based school advised that successful business strategy is about actively shaping the game that firms play, not just playing the game they find (Brandenburger ve Nalebuff, 1995; 60–70). Although there is an emphasis on shaping the game actively in the game-based school, it could only be interpreted as the school as more dynamic in nature than planning school since the rules of the game calculated in advance, and player plays the right game thought beforehand. The distinction between thinking and doing in strategy formation might be more vague than planning school, but it still exists. For these reason the game based school can be interpreted as in line with the deliberateness perspective rather than emergentness or integrated perspectives.

CONCLUSION AND DISCUSSION

This study aims to evaluate the paradoxes in strategy formation from the perspectives of strategic management school. In the context of the study, the perspectives of design, planning, positioning learning, cognitive, environment, power, entrepreneurial, resource-based and game-based school's are examined. In conclusion which perspective matches with which paradox is determined. Table 3 summarizes these matches below.

Table 3: Categorization of Strategic Management Schools According to the Paradoxes of Strategy Formation

STRATEGIC MANAGEMENT SCHOOLS	<u>TYPE OF PARADOX</u>		
	Deliberateness	Emergentness	Integrated Paradox (Dual Perspective)
	Design School	Learning School	Entrepreneurial School
	Planning School	Power School	Configuration School
	Positioning School	Cognitive School	
	Environment School	Resource Based School	
Game Based School			

The main discussions and conclusions of this study can be summarized as in the following;

- Each of strategic management school shapes its perspective around one or two paradox depend on its evaluation of the factors effected strategy formation. This exposed that firms need to have a dynamic perspective in strategy formation that will enable them to form their strategies effectively.
- From the findings it is concluded that design, planning and positioning schools see strategy formation as the two-tier stage. This is a separate stage as the formulation and implementation of firm strategies.
- Design, planning, positioning, environment and game based schools emphasized the importance of external environment whereas learning; power, cognitive and resource based schools advocated the importance of internal factors as leader or strategists in organization.
- There is a distinction between positioning and resource-based view schools related with their perspectives on external and internal environment. Whereas the former focusing on opportunities and threats in external environment resource based view emphasized the importance of strengths and weaknesses in internal environment.
- The paradox of emergentness is raised based on the criticisms of Mintzberg and at al. to the paradox of deliberateness. After the criticisms and discussions related with two main paradoxes, the integrated paradox has been defined by combining them.
- Although there is a similarity in perspectives of environment and positioning schools in strategy formation, because of the contingency approach is the fundamental of environment it is concluded that they are different perspective in categorization of the paradoxes. The former is fit to the paradox of emergentness whereas the later fit to the deliberateness.
- Resource-based and game-based are the two latest schools in strategic management and their perspective in strategy formation fit the opposite paradoxes, the former being in line with the paradox of emergentness and the latter with the deliberateness.
- Another results is that the same approach can be the fundamental of different schools and their perspectives in strategy formation as in the example of resource-based theory is the fundamental of both environment and power schools.

- The learning schools emphasized that strategy formulation and implementation can't be separated. They must be evaluated simultaneously.

The general conclusion in this study is that one of the main questions within the field of strategic management is whether strategy formation is primary a deliberate process or more of an emergent one, and each strategic management school have ambiguous perspective on it apart from the established planning, positioning, environmental and design schools, and relatively new learning school. Most of the newly established schools can only be evaluated with the current knowledge and evaluation of what perspective on strategy formation they employ is relatively difficult for the time being. This difficulty may come from the fact that we are on the age of mixture of opposites like old-new, traditional-contemporary. From the different perspectives on paradoxes it is understood that how organizations should form their strategies and there is not only one best way to form them. Strategies can be formed by preferring the paradoxes of deliberateness, emergentness and integrated perspectives according to different factors, conditions and situations. As a last remark, it can be said that accepting different approaches as paradoxes means accepting the conflicts between two opposites, and strategist's main role is accommodating both factors, even though opposites, at the same time in our age. Today strategists should employee emergentness and deliberateness perspectives at the same time for gaining the benefits of both, and it should not be surprising if all the schools use the same perspective and developed in parallel with this perspective.

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THE ROLE OF DESIGN IN BUSINESS STRATEGIES

Celal Hakan Kağnıcıoğlu
Anadolu University, Turkey

ABSTRACT

The main objective of this paper is to show the role and importance of design in business strategies. The importance of design in business strategies and the strategic role of design in helping companies to meet successfully the challenges posed by their differing market environments and competitive positions are the results of a literature review. So, the proposals collected at the end of an intensive literature review are conceptualized. . Moreover, some discussions are made to show the power and role of design in business strategies and the general goals of business strategy together with the objectives of design strategy that serve them and the tools of design management that follow from such objectives are set out. While some proposals are given to show the place of design in strategic decision making, real life examples are used from the industry. Companies must be very careful in setting their strategies for having competitive advantage and design is one of the effective tools to achieve it.

Keywords: Strategy; design; design management; value creation; design strategy.

INTRODUCTION

The purpose of the present study is to show the relationship between business strategy and design and effect of design in business strategy. Besides, design's contribution to strategy formulation is investigated and the opportunities for design in value creation is tried to be identified. Business strategy aims to identify and secure a long-term competitive advantage for the company. The four essential purposes of the strategy are setting direction, concentrating effort, providing consistency and ensuring flexibility. In the fast changing technological and market environments of today, the design has the potential to contribute to strategic goals. When the strategy is seen as a flow of commitment decisions, it is easy to define the role of design. The created designs give some raw materials to the decision makers for making some decisions and also open the doors of opportunity. By the help of these designs, alternative futures are explored. As a process which bridges the desires of the market with the potential of production, design clearly has a strategic dimension like providing niche through unique styling, identity and product innovation to secure distinctive international niche for small firms in consumer electronics market.

In this paper, firstly, the aims, function and importance of business strategy is stated. Then, design's contribution to strategic goals is indicated by the real life examples and the role and effect of design in business strategies are stated. Finally, design's contribution to future strategic challenges is presented. Moreover, some proposals are given to companies about the strategy and the related design activities and it is indicated how to use design strategy as a competitive weapon according to their changing conditions.

LITERATURE REVIEW

In the 1990s most texts on business strategy advocated a technocratic approach. It was claimed that it was necessary to conduct an exhaustive study of markets, competitors, core competences and the like. In the case of any opportunity, resources are allocated to provide the right product at the right price in the right position at the right point in time.

According to Hamel (2000), the responsibility for strategy making must be broadly distributed. Top management must give up its monopoly on strategy creation. In this sense you can't have innovation in business models without innovation in political models. Weick (1995) claims that when we see strategy as a flow of commitment decisions it becomes easier to define the roles of those who design products and services. Designers help decision makers to explore alternative futures. Their task is to invent, discover and communicate ways to advance the collective sense making of the firm about what to do next. Nakamoto (1996) pointed out that designs are not isolated and firms like Sony develop design styles. Sony's house styles are more than a clever embodiment of a marketing brief. In the design personality of the firm, its enduring story, lies a direct communication with the customer. In these cases, the firm's strategy has found

its fullest expression in the enduring experience of the product. Rickards (1999) stated that designers, visualisers, concept developers and creative people are the Cinderellas of strategy.

Lili (2009) introduces a new model of design leadership strategy in firms. The paper describes what design leadership strategy and the benefit of the strategy are. According to Shaughnessy (2007), having access to the CEO Office and a design champion at the most senior levels of strategic decision making was a success factor common to all. The companies have embraced the fact that design offers business a different perspective on the challenges they face in an increasingly competitive and global marketplace. In the article of "The Business of Design". Breen (2005) focuses on the statement issued by Roger Martin, dean of Rotman School of Business of the University of Toronto in Ontario, on design-influenced economy. The companies will continue to prosper only if they innovate or create refined products and services. The emergence of the design economy is the successor to the information technology. Design-influenced companies understand their customers at a profound level and mobilize around that insight. Organizations that embrace a design-based strategy employ the practice of rapid prototyping. Design's powerful impact on business strategy will require a new way of thinking. Fitzsimmons, et al (1991) emphasizes the need for strategic management of design activity instead of relegating design to a traditional reactive role. In this respect the framework is a significant step towards reducing the existing gap between design and the other business functions, and can help corporate strategists use design as a competitive weapon. Turner (2000) realizes, that design has to redefine its relationship with business-not in terms of design strategy versus business strategy, but at a much more fundamental level. He suggests that design take the role of coordinator, facilitator and interpreter, rather than that of the leader it often aspires to. Companies need to integrate design into their DNA – or treat design as infusion which means everyone in the organization understands and values the contribution design can make.

STRATEGIC MANAGEMENT

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and computer information systems to achieve organizational success. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today (David, 2009, 36).

Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantage. Therefore, there are three ongoing processes in the strategic management of an organization: analyses, decisions, and actions. That is, strategic management is concerned with the analysis of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment of the organization. Then, leaders must make strategic decisions. Within the context of these decisions, two basic questions arise: What industries should we compete in? How should we compete in those industries? And last are the actions that must be taken. Decisions do not have any meaning if unless they are acted on. Firms must take the necessary actions to implement their strategies. This requires the allocation of the necessary resources and the design of the organization to bring the intended strategies to reality (Dess, Lumpkin, Eisner, 2008, 9).

The essence of strategic management is the study of why some firms outperform other firms. Thus, it must be determined how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. The firms try to find some ways to compete in order to create competitive advantages in the marketplace. Besides, they must look for the competitive advantages that are not only unique and valuable but also difficult for competitors to copy or substitute.

There are four key attributes of strategic management. First, strategic management is directed toward overall organizational goals and objectives. The effort of the organization must be directed for achieving the best for the total organization, not for a specific functional area. Second, strategic management must take into consideration multiple stakeholders in decision making. Stakeholders are the people and groups including owners, employees, customers, suppliers, the community at large, and so on. The decisions must not focus on one specific stakeholder. Third, strategic management must include both short-term and long-term perspectives. Thus, the decisions taken must maintain both a vision for the future of the organization and a focus on its present operating needs. Fourth, strategic management involves the recognition of trade-offs between effectiveness and efficiency. Many trade-offs are made for the practice of strategic management.

Decision makers must focus both on the efficiency in the short-term and also the firm's product-market scope in order to anticipate opportunities in the competitive environment.

Top executives provide the context for strategy formulation and implementation through the vision and mission that they not only espouse, but that they also model through their own actions. They sometimes are the originators of the vision and mission and also try to sharpen the employees' shared understanding of the vision and mission. Vision can be defined as a simple statement or understanding of what the firm will be in the future. It identifies the firm's desired long-term status. However, mission is a declaration of what a firm is and stands for – its fundamental values and long-term purpose. When visions and missions of the firm are clearly and widely understood, it will be easy to make strategic decisions entailing difficult tradeoffs. A shared understanding of the firm's direction and values helps guide both executives and employees in their daily decisions and actions. Therefore, vision and mission reinforce and support strategy; conversely, strategy provides a coherent plan for realizing vision and mission. Then in order to be effective, visions and missions must be spelled out in terms of specific quantitative or qualitative goals and objectives for directing strategic actions. After all, one individual or a group of individuals can cope with only so much complexity in a problem. Vision and mission statements provide all employees with strategic purpose: a simplified, widely shared model of the organization and its future, including anticipated changes in its environment (Carpenter, Sanders, 2007, 39).

DESIGN AND STRATEGY

Design can be active at three levels within an organisation. Firstly, at the level of corporate strategy, design expresses the vision, values and beliefs of the organisation, for example in its corporate identity. At the business-unit level, design is used tactically to help achieve business-unit goals, for example, the organisation might conduct a design audit when entering new markets to benchmark the competition. Thirdly, at an operational level, design is present in the day-to-day operations, and in the refining of the product or service development process (Best, 2006, 92). Design processes strengthen the brand, add value and create competitive advantage by the certain support of the organization. The end of this process can be an outcome that gives a finished form to the business strategy. Besides, since design is a problem solving process, it can support organisation to shape the business strategy.

Designers, visualizers, concept developers and creative people are the unknown heroes of the strategy. In the case of crisis, strategy setters are sometimes in difficult position to decide on what to do and how to do it. The strategy must be decided in such a way that supports the company to overcome the difficulties. It is the designers to present new ideas for the companies by new product concepts and show how new technologies could be woven into a product concept. Designers by their new ideas are the real originators of a new strategy. Decision makers and the creators must build an equal partnership for the company strategies, especially in the period of crisis. Strategy development is demanding on the imagination. Intangibles as concepts, intentions, meanings, logic and futures are a vital part of the mix. Therefore, designers need to see that they are on the strategic team. The following seven guidelines show the designers the strategic significance of their role (Bruce, Bessant, 2002, 71):

1. Realize that, sometimes designer can be an idea leader in the company. Although top managers are very experienced people, they might not be as good as the designer in visualizing the products and services.
2. The designer must have set-backs; otherwise, the designer is not being sufficiently radical. Strategies emerge through conflict; two steps forward, one back. The process can be long, painstaking, difficult and exhausting. The designer must be strong enough to resist the difficulties.
3. Designer must be thorough. The ideas coming from the designer must be carefully examined and all the research alternatives must be elaborately evaluated before taking any action.
4. Designer must listen to everybody in and around the company. Customers, employees at every level and suppliers are source of information for the designer. The task of the designer is to harvest idea as well as generate them.
5. Designer must be the person who thinks the unthinkable. Designer should bring their beliefs, values and assumptions into question and be self-critical. Questioning is necessary since every correct belief has the weaknesses of the strengths.

6. Designer should have the ability of persuasive. Designer must convince people in the company and be political and friendly to have their support. If the importance of politics and personality are underestimated good work can be weakened.
7. Designer must be flexible. The products to be designed should be flexible enough to respond changing situations. Due to uncertainty about the future, products should be designed in such a way that changing them must be fast and simple.

Designers should try to support their companies to win competitive races. The competition among the companies is like a race without a finish line. However the company has market research about its rivals and customers, the future is vague and it is impossible to predict the future clearly. Therefore, the companies try to do their best about their activities and manage this vagueness according to their benefits. The design process is essential in this atmosphere in order to be ready for the unexpected situations.

DESIGN'S CONTRIBUTION TO STRATEGIC GOALS

All the firms in the market without taking into consideration what they supply need strategy. Strategy generates advantages to gain competitiveness. It is usually impossible to know precisely how competition in an industry will evolve, and so it is rarely possible to determine for sure that a firm is choosing the right strategy. This is why a firm's strategy is almost always a theory: It is a firm's best bet about how competition is going to evolve, and how that evolution can be exploited for competitive advantage (Barney, Hesterly, 2008, 5).

Globalization makes the market more competitive and more segmented than before. Customers in the market are becoming very complicated in their requirements and demanding more product differentiation. Technology is changing rapidly and causes many improvements in the area of product concepts and production systems. While production systems try to meet the desires of the market with the improved systems, the design of the product and the system are essential by their dimensions.

If the strategic role of design can be used effectively, firms have a lot of advantages of it. Moreover, there are many contribution of design to strategic goals. These strategic goals can be achieved successfully as the necessity of design is to be well understood. The followings are the main cases of indicating how the design plays a part in contributing to strategic goals.

Small to medium sized competing firms in some markets like electronics, have often managed to secure a market niche through the use of design. These firms have employed design-led strategies to gain a distinctive market presence. For example, among all European countries Denmark has the strongest national design identity. Because of the small domestic market, there is less opportunity to manufacture on a large scale. Denmark has tended to wed its craft traditions to modern technology and thereby winning high quality niche markets. One firm that typifies this strategy is Bang and Olufsen. The well engineered, sleek designs of Bang and Olufsen, exploiting wood and metal finishes rather than plastic mouldings, became the design icons of the 1970s. The firm's innovation is clearly based on design rather than technological research and development. These kinds of firms try to implement design-led strategies in order to have international market niches that avoid head-on competition with mass manufacturers.

Textile is one of the most mature industries in the world and in order to survive in this industry, continuous innovation in production technology and design is a requirement. Due to low cost production in some undeveloped countries, textile producers try to find niche through greater integration of design as a means of meeting the needs of fashion-based markets. This is done by buying in fabric and applying design appropriate to national consumer needs, or developing long-term relationships with fashion designers, who provide the main market for fully manufactured and finished material. Leading designer Issey Miyake developed laser printing techniques and introduced computer driven looms to craft weavers. Benetton illustrates the flexible design-orientated strategy that has gained a future for Italy's clothing and textile sectors.

For transnational manufacturers with diverse world markets, the strategic role of design can take on new dimensions by offering a means of integrating and providing a coherent focus for diverse corporate activities. Industrial design is central to the public perception and thus success of any manufacturing company: The product is the most important statement a company can make about its image. As an example, Philips' design director, Robert Blaich, changed the design strategy of the company in 1980s and increase the efficiency of Philips' large design group. Overall, the new approach to design has enabled Philips to bring more, higher quality products to the market more quickly and efficiently than before and more carefully designed to meet

specific market requirements. Philips has found design to be critical process in tailoring their products to particular national or regional requirements while continuing to exploit those truly global markets that do exist.

While there are many industrial, economic and social factors that account for Japan's success, the strategic status of design and the evolving mechanisms of its management play a crucial role. Product innovation is always recognized by Japanese companies. Japanese companies regard design as a key process within innovation and at the heart of the company itself. However design is structured organisationally, there is invariably a very close link between design and marketing. Marketers are wedded into the design process to ensure that market factors inform design decisions. Although, in some companies, designers are briefed with the specific job of coming up with creative ideas, and then given to engineers to develop technologically, most companies try to build an environment that can exploit ideas that originate from anywhere. Japanese companies use new ways of managing and speeding up product development by new philosophies of design appropriate to flexible manufacturing for the diverse lifestyles of global consumers. Improved methods and processes in design make products of Japanese companies more tailored, adaptable and desirable to the consumer. Japanese companies show how design can be used strategically as a visionary tool to provide direction and often as an integrating element within the entire product development process. The core technologies developed in Japan are adapted to culturally specific lifestyle needs by design process for gaining demand worldwide.

DESIGN STRATEGIES

Design is about doing things consciously and not because they have always done in a certain way, it is about comparing alternatives to select the best possible solution, it is about exploring and experimenting. Design is a potent strategic tool that companies can use to gain a sustainable competitive advantage yet most companies neglect design as a strategic tool. What these companies do not realize is that good design can enhance products, environment, communications and corporate identity.

The strategic role of design in helping companies to meet successfully the challenges posed by their differing market circumstances and competitive positions have been considered in the previous section.

Design strategy is a discipline which helps firms determine what to make and do, why do it and how to innovate contextually, both immediately and over the long term. This process involves the interplay between design and business strategy, forming a systematic approach integrating holistic-thinking, research methods used to inform business strategy and strategic planning which provides a context for design. While not always required, design strategy often uses social research methods to help ground the results and mitigate the risk of any course of action. The approach has proved useful for companies in a variety of strategic scenarios (http://en.wikipedia.org/wiki/Design_strategy).

Design strategy can play an integral role in helping to resolve the following common problems:

- Contributing the growth of the adoption of a technology (Example: Toyota designing the hybrid Prius to resemble the conservative Echo instead of making the Prius look high-tech and adventuresome)
- Determining the real focus groups for a company's products and services (Example: John Rheinfrank of Fitch Design showed Kodak that its disposable cameras didn't exist to replace traditional cameras, but instead to meet specific needs, like weddings, underwater photography and others)
- Changing insights into actionable solutions (Example: Jump Associates helped Target turn an understanding of college students into a dorm room line designed by Todd Oldham)
- Assigning a priority in the order in which a portfolio of products and services should be launched (Example: Apple Inc. Laid out the iPod+iTunes ecosystem slowly over time, rather than launching all of its pieces at once)
- Making connection between the design efforts and business strategy of the company (Example: Hewlett-Packard's global design division is focused most intently on designs that simplify technology experiences. This leads to lower manufacturing costs at a time when CEO Mark Hurd is pushing for cost-cutting.)
- Integrating design as a fundamental aspect of strategic brand intent (Example: Tom Hardy, Design Strategist, developed the core brand-design principle "Balance of Reason & Feeling" for Samsung Electronics, together with rational and emotional attributes, to guide design language within a

comprehensive brand-design program that inspired differentiation and elevated the company's global image (http://en.wikipedia.org/wiki/Design_strategy).

A well-planned and executed design strategy is essential for success. A design audit would inform MWS about their brand in the marketplace, regionally and nationally. It would identify possible scenarios and implications for different approaches to design. The design strategy process looks at all aspects of communication with customers. Sophisticated and consistent communications – both internally (newsletters, memos, etc.) and externally (letters, e-mails, invoices, faxes, brochures, website, ads, etc.) – can make a small company look big. The process anticipates needs and helps companies to develop and execute consistent communications systems. Design strategy is a planning process. It should be ever-sensitive to changes in dynamic marketplaces, trends and industry influences. Nor is it limited to the marketing department or the creative services; it touches every stakeholder group and department in a company. It assesses and makes recommendations on features, packaging and other product-related issues to create a seamless integration of brand and corporate image. Design, in its least effective form, is little more than aesthetic remodeling. But used effectively, it provides a stabilizing framework of culture, product and image that supports and enhances each and every activity within a company. And when used strategically, it's another management tool – as important and useful as accounting, value-chain/supply-chain management, resource management and marketing (<http://business.mainetoday.com/smallbusiness/littlefish/050907demo.shtml>).

Design strategy is the effective allocation and coordination of design resources and activities to accomplish a firm's objectives of creating its appropriate public and internal identities, its product offerings, and its environments (Olson, et al., 1998, 56). Appropriate design strategy implementation can lead to the creation of sustainable competitive advantages through the delivery of superior customer value.

Three distinct areas of design activity for the success of the company have been identified by Cooper and Press (1995) and associate specific design strategy issues with each: managing the company's communications and identity, the design of saleable products/services and the design of operating environments.

Design strategy decision-making in the area of corporate communications and identity involves understanding the corporate values and what should be communicated, the relationship between corporate image and corporate goals, whether the focus is on corporation, division, or product line, the necessary design competencies and the intangible messages that corporate environments carry.

Design strategy decision-making in the area of the design of saleable products and services involves understanding the relationship between the factors involved in product or service design (price, quality, standardization) and corporate goals, price point constraints and production costs and capacities, features valued by customers, the competencies necessary to design and deliver the planned products and the intangible messages that designed products and services carry.

Design strategy decision-making for environmental (place) design involves understanding the relationship between corporate values, image, environment, and goals, the competitive strategy adopted by the firm or division, how work is conducted within the firm and the critical interrelations between functions, consumer shopping preferences, the competencies necessary to design corporate environments and the intangible messages that corporate environments carry (Olson, et al., 1998, 58).

Setting direction through a clear vision that motivates employees and attracts consumers and investors is enabled through a design strategy that aims to visualize and communicate corporate objectives. As a design management tool, corporate identity which is focused through a potent symbol of the company's values and applied to environments, information and products, is particularly important in cases where a company's products are relatively undifferentiated from those of its competitors. For the manufacturing companies the product is the image. Quality which is a key priority of design can be used for the strategic goal of design to communicate corporate objectives and values. Bang Olufsen is successful in the market by its premium quality product design. These premium quality products have given this small company a distinctive identity in the market.

Some companies concentrate on what they have done instead of trying to do something they know very little about. Design strategy is clearly essential in ensuring that companies concentrate their efforts on products

that play to corporate strengths, rather than spread out resources and identity. Clear objectives which is associated with a company's internal and external environment: its market, the technology used, resources to investment and so on can be developed by a design policy. As an example, Bang Olufsen's design policy provides a strategic focus for design by identifying the parameters of the company's market and capabilities together with the design criteria for which the company has become known. In order to be effective by this policy it is very important to have appropriate integration within the culture and organization of the company. However design fits into corporate structures, many companies have used it to provide vision and direction, integrating it with other functions to maximize creative interaction and focus in the new product development process. For example, Philips is able to balance centralised design resources with the geographical and product diversity of a large transnational by an appropriate design management structure (Cooper, Press, 1995, 135).

In order to ensure consistent development and application of design policy concentration over time, which is a corporate strategy goal, requires a forward looking design strategy. The definition of design standards, monitoring of design and effective design leadership are design management tools to provide consistency. Sony and Canon design is regularly reviewed at Board level.

Since today market environment is changing rapidly, flexibility is an effective strategic goal for the companies. Therefore, design must be arranged in such a way that is able to adaptable, opportunistic and forward looking. Culture of innovation must be generated within the companies and design departments must be outward directed to develop new ideas. Today, many Japanese companies use external consultant designers together with their in-house design teams to achieve this.

Design strategy of a company can be a competitive weapon in the market. Design can be used as a powerful tool to compete with the rivals. Good product design strategy help the company have a good company image, continuous product improvement and market-led orientation. Moreover, the company can easily adapt its product designs to changing market situations.

DISCUSSION AND CONCLUSION

Designers are the people who help shape the strategy of their companies. They create ideas, products and product positions for the market where customers' buying decisions are affected by emotion, fashion and context. The fundamental contribution of the designer to the market of the company is the design of the product itself.

In 1990s, strategies were set only by top level managers according to exhaustive study of markets, competitors, core competencies and the like. Windows of opportunities could be found, assessed, and if promising, resources allocated to provide the right product at the right price in the right position at the right point in time. These types of strategic processes help many companies to be focused and effective. However, it doesn't continue too long due to real life problems such as wrong assumptions of top managers about average people they know very little. Top management must stop its monopoly on strategy creation and the responsibility for strategy making must be distributed in some extent. Otherwise, the companies do not have innovation in business models and do not compete in the market with their competitors.

Strategies are the reflections of the future for the companies. Futures cannot be predicted precisely by analysis alone. Strategy is a set of decisions that create the future under a basic logic. Strategy requires the commitment of resources in such a way that these commitments change the nature of the business in ways that would be difficult to reverse. Strategy is not what is said but what is done, so there is a vague line among strategy, innovation and operations.

They are the ones who play a key role in supporting companies with raw materials for making decisions. When the designers are at their jobs, they open doors of opportunity for the companies and help decision makers explore alternative futures. Weick (1995) says that "Their task is to invent, discover and communicate ways to advance the collective sense of making of the company about what to do next".

When designers open doors of opportunity for the companies they have three roles:

- Designers enhance the idea of managers what can be done and how can be done.
- Designers verify the possibilities by making a flash of an idea into a proposal.

- Designers struggle for the acceptance of their ideas and try to change the company's decision making processes.

Designers help a firm to make sense of customers' requirements, needs and even expectations. They are very successful when they design some products that are not desired until the customers see it in the market. One of the most important tasks of the designers is to create distinctive products to sell in the market and generate excitement, admiration, desire and loyalty. Whether the designers are aware of it or not, but they are on the strategy team of the company.

Designs are not isolated from the company's image; on the contrary, the design of the product shows the personality and life time story of the company, in addition provides communication with the customer. The products give some messages to the customers and the customers feel themselves close to the company each time they use the products. Therefore, the company's strategy has found its fullest expression in customers' enduring experience of the product (Bruce, Bessant, 2002, 66).

Competitive strategy requires the design to keep the product in superior value, while having satisfied customers with low cost. The timing of this is essential for the success of the competitive strategy to survive and deliver advantage. The design process must be implemented properly in order that the designed product must be perceived very well in the market and the cost of this designed product must be reasonable.

In some instances, design is the source of the strategy for the company. The design of the product guides the company about the strategy of the company or the success in the market. For example, the strategy of a computer game company can be to design and distribute a game with attractive concept or the strategy for the writer of a novel can be an attractive subject. Some strategies can arise in real time. Therefore, decision makers have strategies according to the changing conditions. The strategies can be changed through the flow of information and inspiration. In this situation, creativity is crucial for the enrichment of the planning.

In this paper design's strategic role in gaining market share and competitive advantage in companies and the contribution of design to broaden the responsibilities through defining the objectives are tried to be examined. While strategy is to meet the challenges of the future, design is the assistant visionary tool to respond to the changing values of the market. Designs or in other words products are powerful and competitive tools for the companies to direct the market. The products give ideas about the policy of the company, as well. Moreover, design can contribute through its intermediary role bridging economy and culture in strategic issues for business, as the example of the green market shows.

Since the world is changing rapidly, the requirements, needs and thoughts of the customers are changing. The companies have difficulty in responding these changes and solving the problems rapidly. Here, the design is the powerful weapon in meeting these changes by the support of the strategic decisions taken. Design can take a wider view of problems, with concerns ranging from designing a car through to concepts for urban transport systems.

It can be concluded that designers bring energy to strategy and help the decision makers to look forward. They use the possibility and practicability of the ideas with wide scope. Strategy definitely requires creativity and imagination and this creativity and imagination can be emerged from the design activities. Due to the high competition and frequently changing conditions in the market, the top management and the designers of the company must develop a relationship to contribute to industry more effectively for reflecting the changing value of the age.

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THE PERFORMANCE ANALYSIS OF BANKING COMPANIES

Gökhan Özer
Gebze Institute of Technology, Turkey
Metin Uyar
Beykent University, Turkey

ABSTRACT

Performance evaluation is a necessary part of financial controls. Not only can it be used as reference in decision-making, but also the basis of any improvements. Therefore, how to measure efficiency becomes an important and broad-scope subject. Managers, economists and others researches have attempted to accurately measure the efficiency of the financial sectors for many years. Conventionally, research uses ratio analysis as indicators of performance. But, it isn't enough. So, we used to DEA. The purpose of this study is to examine the financial efficiency pattern of listed banking companies for the years, 2008 and 2009. The last credit crisis in the mortgage market has led to tremendous turmoil in the global industry. As a result, during the last twenty four months, we have seen a substantial decline in the profitability and liquidity of the banking companies in the World. In this paper, we will analyze the financial statements of banking firms in ISE (Istanbul Stock Exchange) to evaluate their relative performance in the industry. We illustrate the use of data envelopment analysis, an operations research technique, to analyze financial statements of banking firms by benchmarking financial ratios of a company against its peers. Data envelopment analysis clearly brings out the firms that are operating more efficiently in comparison to other firms in the industry. Data envelopment analysis also points out the areas in which poorly performing firms need to improve.

Keywords: *Banking Sector, Performance Analysis, Data Envelopment Analysis*

1. INTRODUCTION

Efficiency in the banking sector is a significant topic in Turkish Economy. As leader activity in national trade banks have a top role in the changing Turkey's future. On that account, investigation of banks' performance has a critic value for investor, creditors, clients, Banking Regulation and Supervision Agency – BRSA (in origin language, Bankacılık Düzenleme ve Denetleme Kurumu), Saving Deposit Insurance Fund – SDIF as well as IMF. It is also important from the point of view of the banks' management to evaluation of own performance and benchmarking with other competitor. The performance analysis of the banking sector has been analyzed using ratios. But recent times, a nonparametric technique namely data envelopment analysis used successfully in hospitals, manufacture companies, educational institutions and banks.

The banking system contributes to economic growth by mobilizing financial resources and channeling them to activities with higher expected rates of return for a given level of risk. It provides transaction and payment services, which increase the efficiency of economic activities. The banking industry is expected to grow in the direction of improved productivity, profitability, lower intermediation costs and enhanced customer service. The growth and solvency of a bank would depend, inter alia, on banks being profitable, well managed and sufficiently well capitalized to withstand adverse shocks arising from measured and non-measured risks. Banks that adopt the most cost-efficient size and product mix with respect to a manageable portfolio risk are better placed to exploit the relative cost advantages (Das and Ghosh, 2006, s. 194).

The purpose of this study is to examine the efficiency pattern for the years, 2008 and 2009. We use Data Envelopment Analysis (DEA) to obtain the efficiency of listed commercial banks. Inefficiency is widely conjectured to be an important contributing factor to the cost of Turkish banking sector. The lack of efficiency in resource use in turn engenders low productivity as reflected in high spreads. However, owing to

problems in measuring bank outputs, efficiency measurement is fraught with difficulties. More importantly, banks may not be homogeneous with respect to the types of outputs actually produced. While several attempts have been made to examine the issue of efficiency of banks in developed countries, studies analysing the efficiency of banks in developing countries have been limited. The present paper examines the efficiency of Turkish banks using Data Envelopment Analysis (DEA) approach over the period 2008 to 2009. DEA is a methodology for estimating the relative efficiency and managerial performance of productive units, having the same set of inputs and outputs. Additionally, it enables comparison of the relative efficiency of banks by determining the efficient banks, which span the frontier.

The rest of the study is structured like follow: Part 2 explain a short overview Turkish Banking Sector. Part 3 with related literature review. Part 4 explains conceptual framework of DEA method. Description of banks inputs, outputs and data. Part 5 argues the findings and consequents.

2. The General Outlook Turkish Banking Sector

National banking structure of Turkey occur the commercial banks, investment, and development banks. The commercial banks can be grouped as state's banks, private part's banks and foreign' banks. They work as universal banks. In other words, they engage in financial activities from providing traditional depository and lending services, financing foreign trade activities and maintaining capital market transactions as well as investment banking activities. Starting of 2010, there were 49 banks operating in the Turkish banking industry. Of these, 32 were commercial banks, and 13 were development and investment banks and 4 participation banks. Of the commercial banks and participation banks, 3 were state-owned, 33 were privately-owned banks, 17 were foreign banks² and 16 were banks in the national fund (BRSA, 2010).

Generally, following the crises in 2001 and the restructuring process, the banking sector showed a rapid growth performance in 2002- 2008 period. The total assets rose from USD 130 billion to USD 465 billion, their ratio to GDP from 57 percent to 77 percent. The numbers of branches and staff rapidly increased. In this period, the financial structure of the sector also became stronger. The shareholders' equity of the sector increased from USD 16 billion to USD 54 billion and its free equity from USD 3 billion to USD 40 billion. The capital adequacy ratio which was 18 percent as of December 2008, continued to grow and reached 19.4 percent in the first half of 2009. In addition, the risk management systems improved and public supervision became more effective in this period. The positive developments recorded by the banking system in 2002-2008 period have several reasons, including the favorable domestic and international economic situation and the change in the risk management conception. Another important reason is the success of the "Banking Restructuring Program" (BRSA, 2010).

3. Literature Review

Previous studies illustrate the use of data envelopment analysis to evaluate the performance of the banking industry. Halkos and Salamouis (2004) explore the efficiency of Greek banks with the use of a number of suggested financial efficiency ratios for the time period 1997-1999. They show that data envelopment analysis can be used as either an alternative or complement to ratio analysis for the evaluation of an organization's performance. The study finds that the higher the size of total assets the higher the efficiency. Paradi and Schaffnit (2004) evaluate the performance of the commercial branches of a large Canadian bank using data envelopment analysis. Using the nonparametric technique on a cross-section of 427 banks in eight developed countries, the mean efficiency value was of the order of 0.86 with a range of 0.55 for the UK to 0.95 for France (Pastor, Pe' rez, and Quesada, 1997). Bergendahl and Lindblom (2008) develop principles for an evaluation of the efficiency of a savings bank using data envelopment analysis (DEA) as a method to consider the service orientation of savings banks. They determine the number of Swedish savings banks being "service efficient" as well as the average degree of service efficiency in this industry.

Howland and Rowse (2006) assess the efficiency of branches of a major Canadian bank by benchmarking them against the DEA model of American bank branch efficiency. Berger and Humphrey

² There are 24 commercial, development and investment banks in which a majority of shares, excluding public shares, are held by residents abroad or which have entered into strategic partnership agreements with residents abroad. The controlling shareholders in those banks are resident in the USA (3), France (3), the Netherlands (2), Belgium (2), Germany (2), Greece, Portugal, Luxembourg, Iran, Pakistan, Israel, Bahrain, the United Kingdom, Saudi Arabia, Italy, Kazakhstan and Libya.

(1997) found that depository financial institutions/banks experienced annual average technical efficiency ratios of around 77% (median 82%). Most bank efficiency studies based on DEA approach focused on the banking sector in developed countries. Subsequently, Mukherjee, Ray, and Miller (2001) in their study of productivity growth in 201 large US commercial banks covering the initial post-deregulation period (1984–1990) uncovered the evidence that productivity grew, on an average, by 4.5% per year, with a significant decline in the initial years; banks with large asset size in fact experienced higher productivity growth. A study on cost and profit efficiency for a sample of 14 countries of the European Union, as well as Japan and the US, revealed wide inequalities of profitability between countries, which could be considerably reduced if inefficiency was eliminated (Maudos and Pastor, 2001).

4. Methodology

4.1 Analysis Tool

Ratio analysis has been used extensively in the finance industry for normative and positive purposes (Al-Shammari and Salimi, 1998). The normative approach compares a firm's ratio to a benchmark such as an industry average to judge its performance. The positive approach uses ratios to predict future performance such as earnings and also to assess the firm's risk. Two main reasons for using ratios as a tool of analysis are to allow comparison among different sized bank and to control for sector characteristics permitting the comparison of individual bank's ratios with some benchmark for the sector. The use of these accounting-based financial ratios to measure bank performance has been criticized. For instance, accounting data ignores the current market value of the bank and does not represent economic value-maximizing behavior (Kohers et al., 2000). Additionally, these financial ratios do not consider the input price and the output mix (Berger and Humphrey, 1992) while the selection of the weights of financial ratios is subjective. Due to these difficulties, Berger and Humphrey (1997) conclude that efficient DEA approaches seem to be superior compared to traditional financial ratios analysis in terms of measuring performance. They claim that the DEA approach offers an overall objective numerical score and ranking, and an efficiency proxy together with the economic optimization mechanism.

DEA is a linear programming formulation that defines a nonparametric relationship between multiple outputs and multiple inputs (Charnes et al., 1978). It basically identifies an efficient frontier, which consists of the most efficient decision making units (DMUs) such as banks. Efficient banks are those for which no other banks or linear combination of banks can generate at least the same amount of each output (given inputs). Model (1) below is the BCC fractional programming problem.

$$\begin{aligned} \text{maximize } h_0 &= \frac{\sum_{r=1}^s u_r y_{r0} - u_0}{\sum_{i=1}^m v_i x_{i0}} \\ \text{subject to } \frac{\sum_{r=1}^s u_r y_{rj} - u_0}{\sum_{i=1}^m v_i x_{ij}} &\leq 1, j = 1, \dots, n \\ u_r / \sum_{i=1}^m v_i x_{i0} &\geq \varepsilon, \\ v_i / \sum_{i=1}^m v_i x_{i0} &\geq \varepsilon, \end{aligned}$$

where,

h_0 the performance rating sought for firm “0” which is the one member of the reference set, $j=1, \dots, n$, that is to be evaluated relative to the others,
 v_i the variable weights for each type of input “ i ” which will be determined by solving model (1),
 u_r the variable weights for each type of output “ r ” which will be determined by solving model (1),
 u_0 the variable for identifying returns to scale,
 x_{i0} the known amount of input “ i ” used by firm “0” during the period of observation,
 y_{r0} the known amount of output “ r ” produced by firm “0” during the period of observation,
 x_{ij} the known amount of input “ i ” used by firm “ j ” during the period of observation,
 y_{rj} the known amount of output “ r ” produced by firm “ j ” during the period of observation,
 ε A non-Archimedean infinitesimal constant that effectively allows the maximization.

As can be noted from model (1) above, DEA is an external methodology that identifies a frontier of entities that are the best performers as defined by the reference set of organizations and variables included in the model. DEA assesses multiple independent and multiple dependent variables simultaneously in developing a single aggregate measure of performance that captures the multiple interactions between variables. Thus, common financial performance measures such as return on assets (net income/total assets) and asset turnover (sales/total assets) can be combined into a single comprehensive measure, which identifies the best performers via DEA. Referring to model (1) for example, to include return on assets in the model, profit would be included as an output (y_r) and assets would be included as an input (x_i). Asset turnover can be included by entering sales as an output. Other measures can be added similarly. The resulting comprehensive scalar measure of performance can then be used for statistical comparisons (Banker, 1993). Finally, DEA optimizes on each individual observation and thus permits different production functions or relationships between the variables for each organization. Furthermore, DEA will place the greatest weight (u_r and v_i) on the variables on which the entity does best. Thus, each organization under evaluation is placed in the best “light” possible. These are important considerations for this study because other studies (Antle and Smith, 1986; Ely, 1991) identified inter-industry differences in the financial variables that are most important in assessing the financial performance of a firm. That is, the significance of a specific performance measure was dependent on the industry the firm was in—indicating different production functions for different industries. DEA can readily handle the confounding effect of inter-industry differences because it does not assume any particular production function a priori.

The purpose of DEA is to empirically characterize the so-called efficient frontier (surface) based on the available set of DMUs and project all DMUs onto this frontier. If a DMU lies on the frontier, it is referred to as an efficient unit, otherwise it is labelled as inefficient. The data are enveloped in such a way that radial distances to the frontier are minimized. In practice, efficiency scores are calculated by solving a linear programming problem (Appendix A). The analysis under DEA is concerned with understanding how each DMU is performing relative to others, the causes of inefficiency, and how a DMU can improve its performance to become efficient.⁸ In that sense, DEA calculates the relative efficiency of each unit in relation to all other units by using the actual observed values for the inputs and outputs of each DMU. It also identifies, for inefficient DMUs, the sources and level of inefficiency for each of the inputs and outputs. The DEA is carried out by assuming either constant returns to scale (CRS) or variable returns to scale (VRS).

4.2 Identification of Inputs and Outputs for Banking Companies

Three approaches dominate the literature: the production approach, the intermediation approach and more recently, the modern approach (Das and Ghosh, 2006, p. 200). The first two approaches apply the traditional microeconomic theory of the firm to banking and differ only in the specification of banking activities. The third approach goes a step further and incorporates some specific activities of banking into the classical theory and thereby modifies it. In this investigation, we used production approach.

Under the production approach, banks are primarily viewed as providers of services to customers. The input set under this approach includes physical variables (e.g., labor, material, space or information systems and others physical assets) or their associated costs, since only physical inputs are needed to perform transactions, process financial documents or provide counseling and advisory services to customers. Interest costs are excluded from this approach on the grounds that only the operational process is of relevance. The output under this approach represents the services provided to customers. So, four indicators were using for inputs; number of employees (NOE), total assets (TAS), interest expenditures (INTEX), operating expenditures (OPREX) and two indicators using as outputs: interest income (INTINC), net profit (NETPRF).

4.3 Data Gathering

The Istanbul Stock Exchange has compiling these data starting from 2008/1 to 2009/12. There are 13 banks that listed ISE. Total assets of listed companies are 595.580.000.000 TL at end of 2009. Table 1 and Table 2 present dataset of inputs and outputs of research.

Table 1. Statistics on Input/Output Data of Banks (+000 for TL Columns)

2008						
	NOE2008	TAS2008	INTEX2008	OPREX2008	INTINC2008	NETPRF2008
Max	21453	97551992	6977852	2819538	10596147	2733701
Min	1007	2953108	251980	123278	422616	12579

Average	9620	41028990	3077483	1238303	4787865,077	766980,6154
SD	5988,1437	34026018	2439920,78	903687,744	3613451,654	790618,0935

2009

	NOE2009	TAS2009	INTEX2009	OPREX2009	INTINC2009	NETPRF2009
Max	23040	113223304	5361386	2694687	10441368	2962241
Min	903	2133095	121638	101372	249633	13064
Average	9815,308	46358182,2	2370149,92	1272055,846	4741977,462	1008659,077
SD	6342,649	39509451,6	1918343,65	886413,7425	3645310,623	933786,9454

Table 2. Dataset of Listed Companies (+000 for TL Columns)

2008						
	Inputs			Outputs		
DMUs	NOE	TAS (TL)	INTEX (TL)	OPREX (TL)	INTINC (TL)	NETPRF (TL)
Bank1	15,002	92,683,514	6,486,070	2,262,011	10,126,457	2,733,701
Bank2	1,007	3,745,007	251,980	123,278	448,961	61,544
Bank3	7,320	19,224,574	1,267,234	687,914	2,362,657	278,090
Bank4	9,986	26,572,978	2,001,853	1,106,224	3,709,241	362,648
Bank5	5,326	11,914,926	923,985	640,680	1,627,272	144,671
Bank6	3,924	8,041,338	695,010	427,546	1,321,601	144,307
Bank7	1,146	2,953,108	262,142	127,145	422,616	12,579
Bank8	6,221	14,736,055	1,226,392	701,015	2,001,718	164,198
Bank9	16,378	88,940,860	6,200,432	2,522,590	9,378,392	1,750,488
Bank10	12,900	51,095,895	4,666,693	1,002,236	6,792,931	1,018,315
Bank11	21,453	97,551,992	6,977,852	2,819,538	10,596,147	1,504,408
Bank12	9,592	52,193,493	4,438,967	1,319,172	6,413,658	753,198
Bank13	14,805	63,723,133	4,608,669	2,358,590	7,040,595	1,042,601
Total	105.701	533.376.873	39.154.988	15.521.327	62.242.246	9.720.467
2009						
	Inputs			Outputs		
DMUs	NOE	TAS (TL)	INTEX (TL)	OPREX (TL)	INTINC (TL)	NETPRF (TL)
Bank1	14,726	102,386,283	4,825,073	2,261,343	9,549,763	1,819,006
Bank2	1,009	3,628,804	232,326	107,147	472,168	53,016
Bank3	7,983	21,204,774	906,256	816,331	2,553,255	531,769
Bank4	10,354	29,317,630	1,635,378	1,162,458	3,871,791	650,114
Bank5	5,002	11,274,021	747,833	657,481	1,478,050	111,222
Bank6	3,669	8,954,704	544,534	424,981	1,259,328	152,488
Bank7	903	2,133,095	121,638	101,372	249,633	13,064
Bank8	5,872	15,063,560	833,875	701,035	1,634,755	210,167
Bank9	17,245	105,462,054	5,361,386	2,570,035	10,441,368	2,962,241
Bank10	12,998	60,650,086	3,707,996	1,193,659	6,816,704	1,631,091
Bank11	23,040	113,223,304	5,332,949	2,694,687	10,200,437	2,372,407
Bank12	10,378	64,797,642	3,325,629	1,532,720	6,403,054	1,251,206
Bank13	14,420	64,560,412	3,237,076	2,313,477	6,715,401	1,354,777
Total	93.885	602.656.369	25.986.876	13.892.883	61.645.707	13.112.568

5. Empirical Findings and Analyses

In this study is examined the Turkish commercial banking performance in terms of their ability to provide outputs with minimum input consumption. They are the total efficiency scores, which are reported for the individual banks under constant returns to scale (CRS) assumption. Table 3 details these results. The DEA efficiency scores can be interpreted to show how much each bank could reduce its input usage without reducing output if it were as technical efficient as the best practice banks. For example, if a bank has an efficiency score of 70%, this implies that that particular bank needs to reduce its inputs by 30% in order to achieve 100% efficiency (see appendix 2 for reference value inefficient banks and projections in reference set).

The DEA results show that the listed commercial banking features high efficient in 2008 and 2009. The standard deviations of this analysis are 0.03 for 2008 and 0.06 for 2009. The efficiency scores of the banks in the sample ranged from 0.88 percent to 100 per cent in 2008 and 0.81 percent to 100 percent in 2009 that very high and a good indicator for finance sector. Among the 13 private banks, 7 banks are fully efficient at 2008, 8 banks at 2009. But Bank5, Bank7, Bank8, Bank11 and Bank13 are inefficient in 2008 and Bank5, Bank7, Bank8, Bank11 and Bank13 are inefficient 2009. Bank8 is most inefficient in listed banks (0.88 and 0.81).. Average efficiency is 0.965 at 2008 and 0.960 at 2009 (see Table 4). Generally, the financial performance of listed companies is very well. This good development for Turkish Banking Sector. Also, performance of inefficient banks isn't very bad.

Table 3. Efficient Scores of Turkish Listed Companies

2008			2009		
DMU	Score	Rank	DMU	Score	Rank
Bank1	1	1	Bank1	1	1
Bank2	1	1	Bank2	1	1
Bank3	1	1	Bank3	1	1
Bank4	1	1	Bank4	1	1
Bank5	0,92616	10	Bank5	0,932229	10
Bank6	1	1	Bank6	1	1
Bank7	0,94757	8	Bank7	0,858002	12
Bank8	0,886018	13	Bank8	0,810384	13
Bank9	0,943652	9	Bank9	1	1
Bank10	1	1	Bank10	1	1
Bank11	0,923871	11	Bank11	0,918601	11
Bank12	1	1	Bank12	1	1
Bank13	0,920367	12	Bank13	0,968139	9

Table 4. Statistical Values for Efficient Scores

2008		2009	
No. of DMUs	13	No. of DMUs	13
Average	0,9652029	Average	0,960566
SD	0,0399658	SD	0,06085
Maximum	1	Maximum	1
Minimum	0,8860176	Minimum	0,810384

Conclusion

This paper has examined the efficiency in Turkey's listed banking companies. The DEA approach was applied to measure the efficiency of listed banks in ISE. The data used in this study involved observations from balance sheet and income statements of banks are stay ISE web address. It should be noted that this study measures the relative performance of the listed banks in different inputs required for producing a given output. This study does not consider the quality of outputs and inputs, such as profit quality and technical characteristics of banking sectors, and other factors such as the historical development of banking sectors.

According to DEA results, seven banks in 2008 and eight banks in 2009 are efficient. On the other hand, six banks in 2008 and five banks in 2009 are inefficient. Generally, listed banks in Turkey have over

performance compare with European banks and US banks. So, profitability and financial performance of listed bank very well, according to DEA scores. Turkey Economy' has developing and crisis effect on the economy so weak, especially banking companies. Between 2002-2009 years, banking sector have powerful position in the Turkey' finance section and dominant role in Turkish business life. This trend will continues in 2010, 2011 and 2012. The results of this study indicate that the performance of banking sector is very strong. In general, after a period of rapid growth in investment and number of brunches, perhaps it is time for the banking sector to consolidate and to put more emphasis on internet based growth. It should be emphasized that this study compared only the relative efficiency performance of the banking companies of ISE. Finally, for future research studies, the efficiency performance of Turkish Banking sector can be compared with that of their counterparts in other countries. The results from the studies will provide information about the relative performance of Turkey in the global finance market. This analysis reveals quite wide non-variation in efficiency.

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Appendiks 1: Listed Banks

Bank1	Akbank T.A.Ş.
Bank2	Alternatifbank A.Ş.
Bank3	Denizbank A.Ş.
Bank4	Finansbank A.Ş.
Bank5	Fortis Bank A.Ş.
Bank6	Şekerbank T.A.Ş.
Bank7	Tekstil Bankası A.Ş.
Bank8	Türk Ekonomi Bankası A.Ş.
Bank9	Türkiye Garanti Bankası A.Ş.
Bank10	Türkiye Halk Bankası A.Ş.
Bank11	Türkiye İş Bankası A.Ş.
Bank12	Türkiye Vakıflar Bankası T.A.O.
Bank13	Yapı ve Kredi Bankası A.Ş.

Appendix 2: Reference Value for Inefficient Banks
2008

DMU	Score	Rank	Reference set λ							
Bank1	1	1	Bank1	1						
Bank2	1	1	Bank2	1						
Bank3	1	1	Bank3	1						
Bank4	1	1	Bank4	1						
Bank5	0,92	10	Bank6	1,23						
Bank6	1	1	Bank6	1						
Bank7	0,94	8	Bank6	0,20	Bank10	0,02				
Bank8	0,88	13	Bank1	0,02	Bank6	1,29	Bank12	0,002		
Bank9	0,94	9	Bank1	0,73	Bank2	3,84	Bank6	0,12		
Bank10	1	1	Bank10	1						
Bank11	0,92	11	Bank1	0,62	Bank2	5,67	Bank6	1,02	Bank10	0,05
Bank12	1	1	Bank12	1						
Bank13	0,92	12	Bank1	0,43	Bank2	2,34	Bank6	1,21		

2009

DMU	Score	Rank	Reference set λ							
Bank1	1	1	Bank1	1						
Bank2	1	1	Bank2	1						
Bank3	1	1	Bank3	1						
Bank4	1	1	Bank4	1						
Bank5	0,93	10	Bank6	1,17						
Bank6	1	1	Bank6	1						
Bank7	0,85	12	Bank3	1,81	Bank6	0,16				
Bank8	0,81	13	Bank3	0,14	Bank4	8,70	Bank6	0,74		
Bank9	1	1	Bank9	1						
Bank10	1	1	Bank10	1						
Bank11	0,91	11	Bank1	0,22	Bank3	1,01	Bank9	0,24	Bank10	0,42
Bank12	1	1	Bank12	1						
Bank13	0,96	9	Bank1	0,26	Bank3	0,18	Bank4	0,61	Bank9	0,12

Appendix 3: Projection Values for inefficient banks.

2008					2009				
DMU	Score				DMU	Score			
I/O	Data	Projection	Difference	%	I/O	Data	Projection	Difference	%
Bank 5	0,92616				Bank5	0,9322291			
NOE 2008	5326	4831,576	-494,424	-9,28%	NOE2 009	5002	4306,2375	-695,7625	-13,91%
TAS2 008	11914926	9901206	-2013720	-16,90%	TAS2 009	11274021	10509971	-764050,4	-6,78%
INTE X2008	923985	855757,8	-68227,2	-7,38%	INTE X2009	747833	639109,49	-108723,5	-14,54%
OPR EX2008	640680	526432,4	-114248	-17,83%	OPRE X2009	657481	498792,35	-158688,7	-24,14%
INTI NC2008	1627272	1627272	0	0,00%	INTIN C2009	1478050	1478050	0	0,00%
NET PRF2 008	144671	177683,5	33012,54	22,82%	NETP RF2009	111222	178972,35	67750,35	60,91%
Bank 7	0,94757				Bank7	0,8580016			
NOE 2008	1146	1085,915	-60,0849	-5,24%	NOE2 009	903	737,13475	-165,8652	-18,37%
TAS2 008	2953108	2798276	-154832	-5,24%	TAS2 009	2133095	1830199	-302896	-14,20%
INTE X2008	262142	247673,8	-14468,2	-5,52%	INTE X2009	121638	104365,6	-17272,4	-14,20%
OPR EX2008	127145	108947,6	-18197,4	-14,31%	OPRE X2009	101372	83423,601	-17948,4	-17,71%
INTI NC2008	422616	422616	0	0,00%	INTIN C2009	249633	249633	0	0,00%
NET PRF2 008	12579	52571,95	39992,95	317,93%	NETP RF2009	13064	34252,036	21188,04	162,19%
Bank 8	0,886018				Bank8	0,8103836			
NOE 2008	6221	5511,916	-709,084	-11,40%	NOE2 009	5872	4758,5722	-1113,428	-18,96%
TAS2 008	14736055	13056405	-1679650	-11,40%	TAS2 009	15063560	12207261	-2856299	-18,96%
INTE X2008	1226392	1086605	-139787	-11,40%	INTE X2009	833875	675758,59	-158116,4	-18,96%
OPR EX2008	701015	618285,2	-82729,8	-11,80%	OPRE X2009	701035	532787,46	-168247,5	-24,00%
INTI NC2008	2001718	2001718	0	0,00%	INTIN C2009	1634755	1634755	0	0,00%
NET PRF2 008	164198	263216,1	99018,12	60,30%	NETP RF2009	210167	244930,95	34763,95	16,54%
Bank 9	0,943652								
NOE 2008	16378	15455,13	-922,87	-5,63%					
TAS2 008	88940860	83929204	-5011656	-5,63%					
INTE X2008	6200432	5851049	-349383	-5,63%					
OPR EX2008	2522590	2199924	-322666	-12,79%					
INTI NC2008	9378392	9378392	0	0,00%					
NET PRF2 008	1750488	2275593	525104,7	30,00%					
Bank 11	0,923871				Bank11	0,9186006			

NOE 2008	21453	19819,81	-1633,19	-7,61%	NOE2 009	23040	21164,558	-1875,442	-8,14%
TAS2 008	97551992	90125496	-7426496	-7,61%	TAS2 009	113223304	96224013	-16999291	-15,01%
INTE X200 8	6977852	6446638	-531214	-7,61%	INTE X2009	5332949	4898850,1	-434098,9	-8,14%
OPR EX20 08	2819538	2604891	-214647	-7,61%	OPRE X2009	2694687	2475341,1	-219345,9	-8,14%
INTI NC20 08	10596147	10596147	0	0,00%	INTIN C2009	10200437	10200437	0	0,00%
NET PRF2 008	1504408	2257746	753338,2	50,08%	NETP RF200 9	2372407	2372407	0	0,00%
Bank 13	0,920367				Bank1 3	0,9681388			
NOE 2008	14805	13626,03	-1178,97	-7,96%	NOE2 009	14420	13960,562	-459,4383	-3,19%
TAS2 008	63723133	58648653	-5074480	-7,96%	TAS2 009	64560412	62503441	-2056971	-3,19%
INTE X200 8	4608669	4241666	-367003	-7,96%	INTE X2009	3237076	3133938,9	-103137,1	-3,19%
OPR EX20 08	2358590	1787743	-570847	-24,20%	OPRE X2009	2313477	1793581,4	-519895,6	-22,47%
INTI NC20 08	7040595	7040595	0	0,00%	INTIN C2009	6715401	6715401	0	0,00%
NET PRF2 008	1042601	1502068	459466,5	44,07%	NETP RF200 9	1354777	1354777	0	0,00%

A NEW BALANCING APPROACH IN BALANCED SCORECARD BY APPLYING COOPERATIVE GAME THEORY

M. Jafari-Eskandari
A.R. Aliahmadi,
M.Heidari
A.Agha-Bozorgi

Iran University of Science and Technology, Iran

ABSTRACT

Balance scorecard is a widely recognized tool to support manager in performance of work. Balance Score Card (BSC) has many advantages but it also suffers from some drawbacks. In this paper, we develop a new balancing approach based on game theory. We propose an interaction method among different strategic agents of scorecard as players providing a methodology for collaboration among different players to reduce any inconsistency. We implement four-person cooperative game theory to balancing in BSC.

Keywords: Balanced Scorecard (BSC), Cooperative game theory, performance measurement

1. INTRODUCTION

During the past few years, balanced scorecard (BSC) has been widely used among academicians and researchers involved in strategic management and managerial accounting. The BSC, designed by Kaplan and Norton in 1992, uses four perspectives which reflect firm value creation activities: Learning and growth perspective, internal/business process perspective, customer perspective, and finally financial perspective.

The BSC methodology creates an infrastructure for strategic management activities and introduces four new management processes contributing to linking long-term and short-term strategic objectives separately and simultaneously and use tools for doing balance in organization. BSC helps managers understand numerous interrelationships and causal effects in among perspectives (Huang, 2009:209). This understanding can help managers to choice best strategy for organization to reduce barriers and ultimately improve decision-making and problem solving. Strategy and execution reviews can help management teams review the strategic plans, the review of planning process, including BSC metrics and strategy maps (Kaplan, Norton, 2004 and Leung, Lam & Cao, 2006:682). Although BSC has proven a powerful tool for strategic planning and communicating strategy that assists in strategy implementation but there are some limitations on using this method. One basic issue to be surmounted is the difficulty of determining Balancing among different BSC perspective (Yuksel and Dagdeviren, 2009). In this article, we use cooperative game theory to make predictions about four-person corporation games.

The rest of this article is organized as follows. In the following section, we provide an introduction to balance score card and the cooperative game theory. In Section 3, we present methodology for combine game theory and BSC. In Section 4 one balancing system defined by the use of game theory and Finally, the conclusion remarks are given in section 5 to summarize the contribution of the paper.

2. LITERATURE REVIEW

2.1 Literature on the balanced scorecard (BSC)

First devised by Kaplan and Norton, the balanced scorecard approach comprises four perspectives: learning and growth perspective, internal process perspective, customer perspective, and financial perspective which seeks to offer managers a system that would help them turn strategy into action (Wong, Lam & Chan, 2009:369). Presently, a large number of organizations are currently successful using BSC. In fact, Koning in 2004, mentions that recent estimates suggest that 60% of the 500 largest Fortune Organizations use BSC and also Gumbus in 2005 years, mention that 64% of American Company using BSC for performance evolution. There is considerable evidence that organizations are increasingly adopting BSC in their strategic process. BSC have benefits for organization that there are some advantages:

1. Just a few numbers or performance indicators need to be checked (Neely, 1998).
2. Serves as a bridge between different fields (financial and non-financial fields) (Kaplan and Norton, 1996:75).
3. Drawing causer loop diagram for improve strategic plan (Kaplan and Norton, 1996:75).
4. Integrate simple plans for reduce contact in doing strategies (Li, Gu & Liu, 2009:2918).
5. Improve information management in organization (Bobillo , Delgado, Romero and Lopez, 2009).

But it must be noted that there are some limitations:

1. Unidirectional causality too simplistic: The use of causal-loops alone is seen as problematic (Richmond, 2001).
2. Does not separate cause and effect in time: The time dimension is not part of the BSC (Lee, , Chen & Chang, 2008:96).
3. No mechanisms for selected best measures for performance: The BSC concept provides any mechanism for to best defined measures (Leung, Lam & Cao, 2006:682 and Cebeci, 2009:8900).
4. Don't selected chain value for organization: BSC cannot define chain value in strategies operation (Yuksel and Dagdeviren, 2009).
5. BSC don't dynamic for control online (Akkermans and Oorschot, 2002:932).
6. Balancing in BSC isn't actual (Pfeffer and Sutton, 2000).

In this paper, we using of a new approach (game theory) to solve limitation of BSC.

2.2 Background of the evolutionary game and the model

Game theory is often described as a branch of applied mathematics and economics that studies situations where multiple players make decisions in an attempt to maximize their returns (Myerson, 1997). Generally, the publication of the theory of Games and Economic Behavior by Morgenstern and Von Neumann in 1944 symbolizes the foundation of Game Theory system (Shapley, 1953). The modern game theory developed from 1950s- 1960s, and in 1970s the modern game theory became popular economic theory and behavior politics (Suijs , Borm , Waegaenere & Tijs, 1999:195). The basic concept of game theory includes: player, action, strategy, information, income, equilibrium. Initial of game theory concept is a basic modeling for function payoff for any players. The basic model of formal game theory (Tijs, 2003):

σ_1, σ_2 Are the actions of player1 and player 2; P is the payoff function of every player in different strategy association. Set is the set of players' strategies. If $\{\overline{\sigma_1}, \overline{\sigma_2}\}$ satisfied the following:

$$\begin{cases} P^1(\overline{\sigma_1}, \overline{\sigma_2}) = \max_{\sigma_1 \in S^1} P^1(\sigma_1, \sigma_2) \\ P^2(\overline{\sigma_1}, \overline{\sigma_2}) = \max_{\sigma_2 \in S^2} P^2(\sigma_1, \sigma_2) \end{cases} \quad (1)$$

Then strategy set $(\overline{\sigma_1}, \overline{\sigma_2})$ is Equilibrium. For game set $(\overline{\sigma_1}, \overline{\sigma_2}) \in V$, if there is no strategy set (σ_1, σ_2) satisfying the following at the same time:

$$\begin{cases} P^1(\overline{\sigma_1}, \overline{\sigma_2}) \geq P^1(\sigma_1, \sigma_2) \\ P^2(\overline{\sigma_1}, \overline{\sigma_2}) \geq P^2(\sigma_1, \sigma_2) \end{cases} \quad (2)$$

Then it is called Pareto optimality.

3. METHODOLOGIES

In this study evolutionary game theory will be used combined with balanced scorecard (BSC). Game theory has been accepted widely as the best tool for interactive decision making, while BSC on the other hand has been accepted also as the best tool in performance measurement, which is the game theory for determined balanced point in dynamic approach for organization. The model will be built in interactive framework where in making decision each player considers other possible strategies choices.

This study applied a prototype BSC-Game which linked the database management, model base, knowledge acquisition, and dialogue subsystems to construct a BSC knowledge-based system for balancing by using new tools. The BSC-Game comprises three main components, as illustrated in Fig. 1.

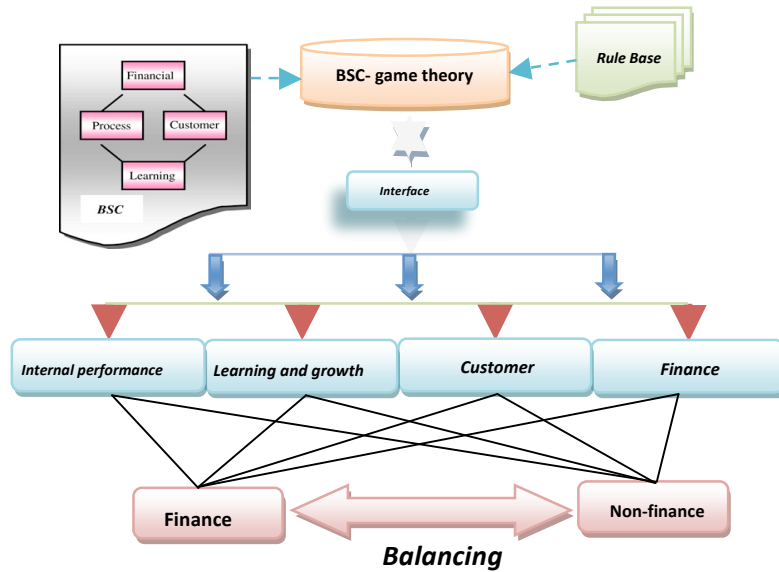


Fig. 1 The architecture of the BSC- game theory system (BSC-Game)

4. APPLYING COOPERATIVE GAME THEORY IN BSC

This might be far-fetched to define the proportional probability of playing the cooperation strategy as the collaboration effort. In a cooperative game, it is natural to assume that players can make continuously varying collaboration effort. In a four-player cooperative game, we assume that each player has a maximum resource budget, $x_{1m}, x_{2m}, x_{3m}, x_{4m}$, respectively. However four players might determine their collaboration effort during the cooperative process.

Let p_1, p_2, p_3, p_4 be the effort index of Player $i (i = 1, 2, 3, 4)$. Accordingly, $p_i x_{im}$ is the total collaboration effort of Player $i (i = 1, 2, 3, 4)$. We denote $B(p_1 x_{1m}, p_2 x_{2m}, p_3 x_{3m}, p_4 x_{4m})$ as common benefit of four players. Because of the efficiency of different players, we adopt $B(p_1 x_{1m}, p_2 x_{2m}, p_3 x_{3m}, p_4 x_{4m})$, which allows asymmetric efficiency between players as the benefit function. Let $C(p_i x_{im})$ be the cooperation costs of four players respectively. Thus, Player i 's payoff function can be written as follows.

$$\Pi_i(p_1, p_2, p_3, p_4) = B(p_1 x_{1m}, p_2 x_{2m}, p_3 x_{3m}, p_4 x_{4m}) - C(p_i x_{im}) \quad (3)$$

Here we would like to emphasize that we are discussing an asymmetric continuous cooperation game. If Eqs. above are concave and we obtain a vector of $\{p_1^*, p_2^*, p_3^*, p_4^*\}$ where $0 \leq p_i \leq 1$, then $\{p_1^*, p_2^*, p_3^*, p_4^*\}$ is a unique equilibrium for this asymmetric continuous cooperation game. We focus on case where the payoff functions are linear to the collaboration efforts. We have the following observation.

Table 1: The players' effort matrix

		Player 1			
		Cooperate		Defect	
Player 2	Cooperate	Player 3 (Cooperate), Player 4(Cooperate)	Player 3 (Defect), Player 4(Cooperate)	Player 3 (Cooperate), Player 4(Cooperate)	Player 3 (Defect), Player 4(Cooperate)
		Player 3 (Cooperate), Player 4(Defect)	Player 3 (Defect), Player 4(Defect)	Player 3 (Cooperate), Player 4(Defect)	Player 3 (Defect), Player 4(Defect)
	Defect	Player 3 (Cooperate), Player 4(Cooperate)	Player 3 (Defect), Player 4(Cooperate)	Player 3 (Cooperate), Player 4(Cooperate)	Player 3 (Defect), Player 4(Cooperate)
		Player 3 (Cooperate), Player 4(Defect)	Player 3 (Defect), Player 4(Defect)	Player 3 (Cooperate), Player 4(Defect)	Player 3 (Defect), Player 4(Defect)

		Player 1			
		Cooperate		Defect	
Player 2	Cooperate	$p_1 p_2 p_3 p_4$	$p_1 p_2 (1 - p_3) p_4$	$(1 - p_1) p_2 p_3 p_4$	$(1 - p_1) p_2 (1 - p_3) p_4$
		$p_1 p_2 p_3 (1 - p_4)$	$p_1 p_2 (1 - p_3) (1 - p_4)$	$(1 - p_1) p_2 p_3 (1 - p_4)$	$(1 - p_1) p_2 (1 - p_3) (1 - p_4)$
	Defect	$p_1 (1 - p_2) p_3 p_4$	$p_1 (1 - p_2) (1 - p_3) p_4$	$(1 - p_1) (1 - p_2) p_3 p_4$	$(1 - p_1) (1 - p_2) (1 - p_3) p_4$
		$p_1 (1 - p_2) p_3 (1 - p_4)$	$p_1 (1 - p_2) (1 - p_3) (1 - p_4)$	$(1 - p_1) (1 - p_2) p_3 (1 - p_4)$	$(1 - p_1) (1 - p_2) (1 - p_3) (1 - p_4)$

We show that the payoff of a player in a special continuous-strategy collaboration game can be used to describe the payoff of the player in a dynamic game. For a discrete-strategy game, we argue that the mixed strategies might be considered as a continuous effort that a player is willing to contribute to the collaboration. Thus, we can consider a mixed strategy essentially as an effort matrix (see Table 2).

In this article, we conglomerate a single factor called social punishment, which is denoted by δ . In this collaboration game, we assume that a player will be punished, e.g. his/her reputation gets hurt, etc., if he/she decides to defect while the other cooperates. We model a symmetric collaboration as shown in Table 2.

Table 2: A symmetric collaboration game

		Player 1			
		Cooperate		Defect	
Player 2	Cooperate	$b - \frac{c}{4}, b - \frac{c}{4}, b - \frac{c}{4}, b - \frac{c}{4}$	$b - \frac{c}{3}, b - \frac{c}{3}, b - \delta, b - \frac{c}{3}$	$b - \delta, b - \frac{c}{3}, b - \frac{c}{3}, b - \frac{c}{3}$	$b - \delta, b - \frac{c}{2}, b - \delta, b - \frac{c}{2}$
		$b - \frac{c}{3}, b - \frac{c}{3}, b - \frac{c}{3}, b - \delta$	$b - \frac{c}{2}, b - \frac{c}{2}, b - \delta, b - \delta$	$b - \delta, b - \frac{c}{2}, b - \frac{c}{2}, b - \delta$	$b - \delta, b - c, b - \delta, b - \delta$
	Defect	$b - \frac{c}{3}, b - \delta, b - \frac{c}{3}, b - \frac{c}{3}$	$b - \frac{c}{2}, b - \delta, b - \delta, b - \frac{c}{2}$	$b - \delta, b - \delta, b - \frac{c}{2}, b - \frac{c}{2}$	$b - \delta, b - \delta, b - \delta, b - c$
		$b - \frac{c}{2}, b - \delta, b - \frac{c}{2}, b - \delta$	$b - c, b - \delta, b - \delta, b - \delta$	$b - \delta, b - \delta, b - c, b - \delta$	$0, 0, 0, 0$

Thus, Player 1's expected payoff is given by :

$$\begin{aligned}
\Pi_1(p_1) = & p_1 p_2 p_3 p_4 (b - \frac{c}{4}) + p_1 p_2 (1 - p_3) p_4 (b - \frac{c}{3}) + (1 - p_1) p_2 p_3 p_4 (b - \delta) + (1 - p_1) p_2 (1 - p_3) p_4 (b - \delta) \\
& + p_1 p_2 p_3 (1 - p_4) (b - \frac{c}{3}) + p_1 p_2 (1 - p_3) (1 - p_4) (b - \frac{c}{2}) + (1 - p_1) p_2 p_3 (1 - p_4) (b - \delta) + (1 - p_1) p_2 (1 - p_3) (1 - p_4) (b - \delta) \\
& + p_1 (1 - p_2) p_3 p_4 (b - \frac{c}{3}) + p_1 (1 - p_2) (1 - p_3) p_4 (b - \frac{c}{2}) + (1 - p_1) (1 - p_2) p_3 p_4 (b - \delta) \\
& + (1 - p_1) (1 - p_2) (1 - p_3) p_4 (b - \delta) + p_1 (1 - p_2) p_3 (1 - p_4) (b - \frac{c}{2}) + p_1 (1 - p_2) (1 - p_3) (1 - p_4) (b - c) \\
& + (1 - p_1) (1 - p_2) p_3 (1 - p_4) (b - \delta)
\end{aligned}$$

Let $\frac{\partial \Pi_i(p_i)}{\partial p_i} = 0$ ($i = 1, 2, 3, 4$) and we obtain the optimal solution. We use an example to show the implementation of our proposed method.

5. CONCLUSIONS

Game theory, in the last decades has emerged as a powerful method to describe and to give way-outs when facing interactive problems solving. However, one big constraint to make it more applicable seemingly is in determining alternative pay-offs. Especially when the problems are dominated by qualitative considerations like what usually happens in strategic problems. Qualitative inputs cannot be processed directly by game theory. They should be translated first into quantitative inputs (pay-offs). As run the model by MATLAB software, I see that is Nash equilibrium point in $p_i = 0.5$ $i = 1, 2, 3, 4$

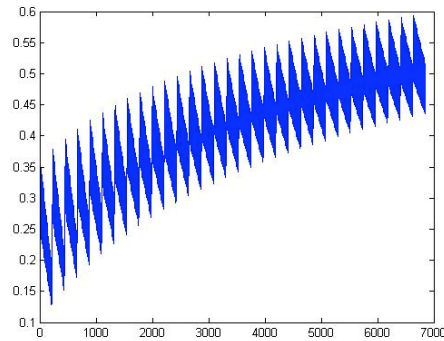


Fig. 2: Nash equilibrium point

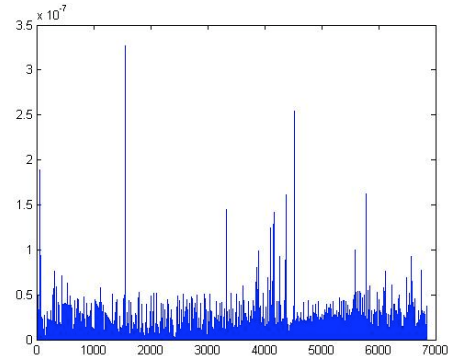


Fig. 3: Error of run model

This paper shows how game theory can be used to balance that perspective of BSC. The research found that the best Equilibrium point for the four players in BSC is by $p_i = 0.5$ $i = 1, 2, 3, 4$. To deal with that, they need to unite their efforts and to support one another.

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VIEW OF THE ORGANIZATIONS THAT ARE IN THE FIRST 500 IN TURKEY ON BALANCED SCORECARD METHOD

Ahmet Uçaktürk
Kocaeli University Civil Aviation College, Turkey

Mustafa Bekmezci
Turkish Armed Forces, Turkey

Tülay Uçaktürk
Çanakkale Onsekiz Mart University, Turkey

ABSTRACT

Performance measurement criteria based on financial bench marks of industrial century, show the past performance in reality, and do not give any ideas about the future. With the imbalances arising of not taking into consideration the factors effecting financial performance and financial indicators measuring performance unilaterally, and organizations being unsuccessful in implementing their strategies, has provided the development of Balanced Scorecard (BSC) model. Within this context, short and long term targets, financial and non-financial criteria, results and indicators affecting results, balance formed bittern the performance dimensions in the organization and outside are emphasized in BSC. In this work, the managers of the organizations included in the first 500 were asked whether they used BSC management model in their organizations or not, and to the organizations that use BSC method, their opinions on the implementation of BSC, and to the organizations that do not use BSC management model, were asked whether they thought of using this method in the future or not. The organizations that use BSC method and those that plan to use the BSC method in the future were asked what their expectations were when choosing BSC method. Results obtained, were compared to the work of Coşkun in 2006 (Coşkun, 2006) using the BSC method in the first 500 organizations of Turkey.

Keywords: *Balanced Scorecard; BSC; BSC usage; BSC usage in Turkey*

INTRODUCTION

The purpose of this work is to learn the awareness of Balanced Scorecard (BSC) method, assessed as the most innovative and effective management idea of the last 75 years, by Harvard Business Review, in the and their opinion on the implementation of BSC method. Subsequently, the organizations that use BSC management model and those that do not use it, were compared from the point of importance the place on the dimensions of BSC and the frequency of measuring these dimensions.

BSC that is a strategic management model that is based on measure and that turns strategy into action; it has four dimensions: financial, customer, internal processes and learning and development. In the competitive environment of the information age, in order for the organizations to be successful, BSC must place importance to these four dimensions. However, as it is understood from the definition of BSC, measuring such dimension is also an obligation. Because it is not possible to manage without measuring, within this scope, first literature is searched, and the questionnaire prepared to learn the opinions of the first 500 organizations of Turkey about the BSC, were sent to all excluding 16 organizations that do not wish their names announced, and replies were received from 238 organizations.

EXISTING SITUATION

Many organizations measure their performance by taking into consideration their financial data, and the value creating elements, together with the value creating elements of marketing are ignored. Operations

cannot follow the changes in strategic value creators by only using the accounting or financial performance criteria. While financial criteria can offer perfect information about the past, they do not provide much information about the future. In financial accounting, figures such as profitability, size of balance sheet, sales, costs, production etc. are used for the purposes of performance measure. In the measurement of organizational performance, focusing only in financial data creates a single sided point of view in collective activities; therefore an effective coordination becomes hard (Nilsson&Olve, 2001). Additionally, the fact that financial criteria are related to financial policy, (Kloot&Martin, 2000), its inadequacy in measuring the performance of nonmaterial assets, (Lövingsson, Dell'Orto&Baladi, 2000), that it does not provide the organization any data on answering both the real requirements of the customer and the satisfaction of customer requirements, (Şimşek, 2006) appears the most important inadequacy of financial criteria. In addition to these, the values created or lost as the result of the attitude of the managers, can not be seen in financial tables. Therefore, financial criteria are not in harmony with the business reality of information age. In measuring the operation performance; activities in the operation, condition of the market, interaction of the subjects that are direct interest to the operation strategies such as R&D and heir contribution to strategy must be must solidly put forward. With such an approach, financial criteria and information that will shape the future will be used together, performance criteria will be balanced, and operations' reaching its target will be easier.

In addition to the inadequacies arising from the use of only financial criteria, another reality determined is the fact that organizations inability to implement their strategies correctly. Namely, in a research done by Fortune Magazine in 1980's the rate of the strategies implemented was determined to be 10%; in the research made in 1999 it was stated that 70% of the failures seen arose from the inability to implement strategies (Kaplan&Norton, 2001). Another research showed that only 5% of the employees understood the strategy of the organization, only 25% of the managers have related the incentive premiums with the strategy, 60% of the organizations did not associate budget and the strategy, and 85% of the top level executives, have spent less than an hour, once a month on the strategies (Niven, 2002). As it can be understood from these data, it is quite normal that 90% of the organizations are not successful in application of their strategies. No matter how successful a strategy is, it has no benefit to the organization unless it is implemented. In today's competitive environment, implementation of the strategies are required, rather than their formulation.

Due to all these explanations, operations were forced to focus on new criteria, in order to continue their success (Leinonen, 2005): Performance measure matrix (Keegan, 1989), Smart pyramid (Lynch&Cross, 1991), Balanced Scorecard (Kaplan&Norton, 1992) and performance prism (Kennerly&Neely, 2000) can be shown as examples to these (Metawie&Gilman, 2006). These approaches show similarities with respect to clarify the strategy, putting forward the success factors compliant to the strategy, and defining proper criteria for the critical success factors (Mettanen, 2006).

BALANCED SCORECARD

BSC, has brought an integrated approach to measuring performance, by placing importance to both the financial criteria and nonfinancial criteria in the measurement of organizational performance, and is accepted as the most innovative and most effective management idea of the last 75 years by HBR (Sibbet, 1997). Similarly, among the top level executives, who are active in more than 30 industrial areas by Bain and Company, among the most effective and satisfactory management tool used widely, BSC, is determined as the most successful one (Niven, 2002). BSC has been used successfully in prioritizing the strategic objective instead of daily activities, in following-up and control of these activities in time, both in the public and in business world (Olve&Sjöstrand, 2006).

Kaplan and Norton, who developed BSC management model, have defined BSC as a strategic performance management system that formed a framework for the strategic measurement and management by converting the organization's mission and strategy into a detailed performance measuring set (Kaplan&Norton, 1996). Brown and McDonell (Brown&McDonell, 1995), who handled the subject as of its purpose, has stated that BSC as a performance measurement method developed to assist to overcome the problems arising from the imbalances between the factors affecting the performance with incomplete and one sided measurement due to adhering to the short term indicators, the organizations which use traditional performance measurement systems face. Braam and Nijsen have also (Braam&Nijsen, 2004) emphasized BSC as a strategic management system that clarifies the strategy and turns strategy into action. In addition to these, BSC is also evaluated as performance measuring and evaluation tool that considers the organization as a whole, both an integrated management tool and also that uses various performance indicators (Koçel, 2001), and a tool providing learning and development of betterment, to determine the organizational objective and to provide

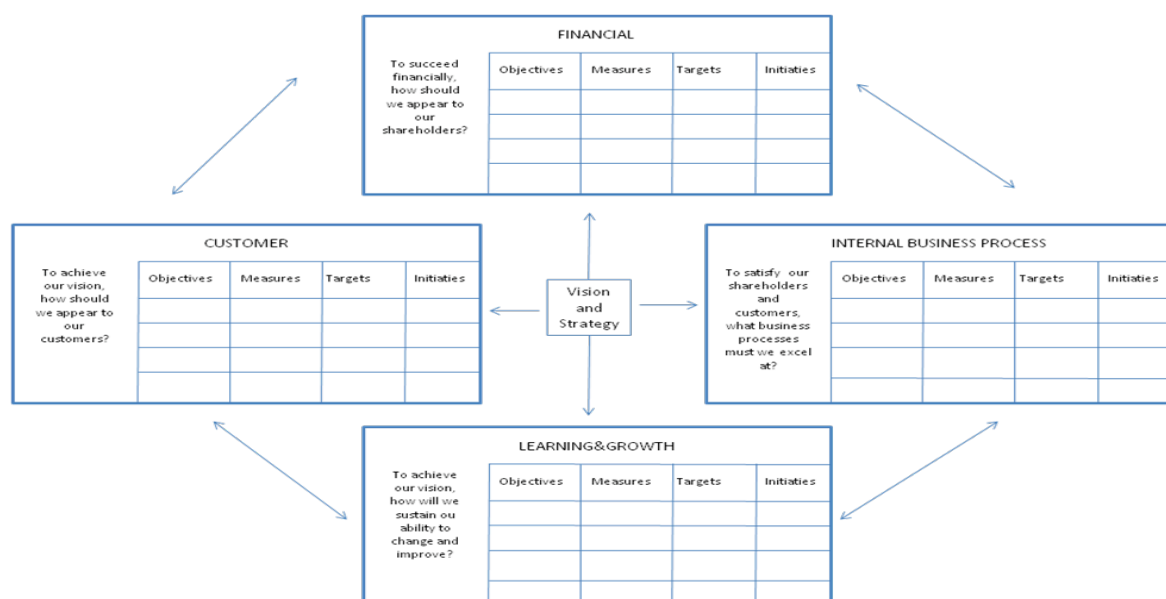
feedback (Gautreau&Kleiner, 2001). As it can be understood from these definitions, BSC, by placing importance to the non-financial criteria in addition to financial one in the measurement of the organization performance, while develops an integrated approach to the performance measurement, also required the determination of the strategic objectives in an absolute way, and definition of these critical factors that shall provide reaching the objective.

In BSC, the results of the strategic decisions are evaluated in four important dimensions. These dimensions are: Financial Dimension, Customer Dimension, Internal Processes Dimension and Learning and Development Dimension. Addition of three dimensions to financial dimension has covered an important incomplete point. While financial measurement puts forward the past performance of the organization, BSC’s other three non-financial dimensions determines the future performance of the organization. These dimensions are generally adequate when defined absolutely. In the event it is required, dimensions can be extended or replace another dimension. Selection depends on the characteristics of the area organization works (Michalska, 2005). Whether all the dimensions are used or not, or adding new dimensions to these in the event it is required, has provided flexibility to BSC.

In financial dimension, the issue of what needs to be done to increase the profit share of the shareholders and the value of the organization is being researched. In customer dimension, customer and market characteristics the managers wish to compete are determined. In internal processes dimension, critical processes are defined that are required to reach financial objectives. It is not possible for an approach where the processes are not compatible with strategies; employees have ambiguous ideas about their roles in the process and the strategy. In learning and development dimension, the abilities of the organizations to provide continuous development in the existing products and production process, to develop their learning and changing capability, and to continue these characteristics are also emphasized.

Each of the dimensions defines the objectives of the operation (that will be succeeded), its indicators (criteria of the objectives), targets (score and timing required to be achieved), activities (how they will be done). Selection of the dimensions this way is quite reasonable. Namely, after the organization decides on its financial objectives, (Financial dimension), in order to reach these objectives, how it should appear to its customers (Customer Dimension), how it will shape its internal processes to reach the objectives it has determined, (Internal Processes Dimension), which methods does it need to provide the continuity of work and its better execution (Learning and Growth Dimension). The questions to which answers are required in this definition can be expressed as: For Financial Dimension; “How do we appear to the shareholders?” For Customer Dimension; “How should the customers perceive us?” For Internal Processes Dimension, “How Can We Provide Perfection?”, and for Learning and Development Dimension, “How can we continue to develop and create value?”

Figure 1: Converting the strategy and vision into physical vision by means of the dimensions of BSC



Source: Kaplan and Norton, 1996:76.

Organizations that can turn the operation strategy into measurement system, they will be more successful in the issue of implementing their strategies since this will provide the understanding of purpose and objectives better. Expressing of the criteria produced from strategy, in numerical objectives and criteria will provide the understanding of the strategy by all employees. BSC, in this sense is helping in removing the barriers met in the implementation of the strategy. Because Balance Measurement Indicator, requires the absolute determination of the strategic objective of the operation and the definition of the criteria that will provide the reaching to these objectives. In this context, by means of the dimensions of the BSC, how the strategy and vision are turned into physical criteria are shown in Figure 1 (Kaplan&Norton, 1996).

As a matter of fact, in a questionnaire conducted by BSC Collaborative in September 2000, 66% of the organizations have stated that they have put the BSC system in use, to bring the organization to the same parallel with strategy, 61% to provide organizational strategy, 57% to establish strategic management system, 54% to connect the strategy with planning and budgeting, 51% to establish strategic targets, 50% to determine strategic priorities, 47% to provide the individuals to be in the same direction with the strategy (Downing, 2000).

METHOD

In the research, as a method of collecting information, questionnaires by mail were used. Whether the organizations included in the first 500 in Turkey, used BSC management model or not was researched, the organizations that use BSC method, their opinions on BSC method, and the organizations that do not use BSC method were asked whether they thought of using it or not in the future. The expectations of the organizations that use BSC method and those which plan to use BSC method when choosing this method were determined. In order to determine the validity of the general opinions related to BSC hypothesis test is used. The questionnaire prepared, is sent to all the largest companies of Turkey that are within the first 500, excluding those 16 that did not wish their names announced. 8 of the organizations the questionnaires were sent to gave feedback indicating that they did not participate in these types of research. 238 organizations have answered the questionnaire.

1. The Duties of the People Who Answered the Questionnaire

It was sent that most of the people who answered the questionnaire are people who work in higher level of management, and who are included in the decision stage of the performance implementations. 94 people (39,50%) are employed in higher levels of management such as general manager, vice general manager, chairman of the board, or vice chairman, member of the board of directors and strategic planning manager. The percentage of answering the questionnaire by human resources manager, quality management manager, accounting, finance or finance manager is 45%. The duties of the people who answered the questionnaire the organization are shown in Table 1.

Table 1. Duties of the People who answered the Questionnaire:

Duty	N	Percentage
General Manager	56	23,5
Vice General Manager	28	11,8
Chairman of the Board/Vice chairman	5	2,1
Member of the Board	3	1,3
Strategic Planning Manager	2	0,8
Human Resources Expert	12	5,0
Human Resources Manager	39	16,4
Quality Management Manager	13	5,5
Accounting, Finance /Financial Manager	29	12,2
Other Managers (Production Man., Marketing Man. / Profitability Branch Manager)	26	10,9
Other (Legal Consultant, Consultant, Chief, Engineer etc.)	21	8,8
Those who did not answer	4	1,7
Total	238	100

2. Field of Activity of the Organizations

The highest rate of receiving answers from the organizations who participated in the research is cement sector with a percentage of 77,27%. The lowest rate of receiving answers is the plastic sector, and the percentage of receiving answers is 30%. No answers were received from aviation sector and tobacco products sector. The fields of activities of those answering the questionnaire are given in Table 2.

Table 2. The Duties of the People Who Answered Questionnaire

Sector	No. of Organ. Questionnaire sent to	No. of Organ. That Answered the Questionnaire	Percentage	Rate of Received Answers
Tree—forestry	12	6	2,52	50,00
Packaging	11	6	2,52	54,55
Informatics	35	15	6,30	42,86
Glass-Ceramics	8	6	2,52	75,00
Cement	22	17	7,14	77,27
Iron-Steel	15	9	3,78	60,00
Electric-electronic	22	14	5,88	63,64
Energy-petroleum	20	8	3,36	40,00
Food-beverage	82	31	13,03	37,80
Fertilizer	6	2	0,84	33,33
Textile-ready Made Apparel	70	28	11,76	40,00
Service	20	12	5,04	60,00
Press-publishing	2	1	0,42	50,00
Rubber	3	2	0,84	66,67
Medicine	13	10	4,20	76,92
Construction and construction material	5	2	0,84	40,00
Chemistry	13	7	2,94	53,85
Jewelry making	3	2	0,84	66,67
Minerals	6	2	0,84	33,33
Machine	23	11	4,62	47,83
Metal	16	11	4,62	68,75
Automotive	39	20	8,40	51,28
Retail	14	7	2,94	50,00
Plastic	10	3	1,26	30,00
Telecommunication	5	4	1,68	80,00
Tourism	4	2	0,84	50,00
Aviation	3	0	0,00	0,00
Tobacco and tobacco products	2	0	0,00	0,00
Total	484	238	100,00	

3. BSC Usage

17,64% of the organizations according to the research use BSC in all departments 4,62% in some departments. Therefore the rate of the organizations that use BSC is 22,26%. Additionally among the organizations that participate in the research 6,72% has completed BSC project and reached the stage of starting the implementation. 69,32% of the organizations that participated in the research never used BSC. 4 of the organizations (1,68%) that participated in the research the BSC implementation that started was abandoned. BSC usage is given in Table 3.

Table 3. BSC Usage

Do you use BSC in your organization?	Frequency	Percentage
Never used it	165	69,32
Implemented but abandoned	4	1,68
Its project is completed we will start implementing it.	16	6,72
We use it in some of the departments of our organization	11	4,62
We use it in all departments of our organization	42	17,64
Total	238	100

Coşkun, in the research carried (2006), has determined that 18,69% of the Turkish organizations used BSC method, in 2,80% BSC project was completed, 59,81% never used BSC, and in 1 organization the BSC implementation is abandoned. When compared to BSC implementation in the world, it will be seen that the rate of implementation of the BSC in Turkey is low. That is to say, in the research made in 1998; 61 of the 236 organizations in Denmark, Finland and Norway, have used BSC method, and 140 were planning to use within two years (Nilsson&Olive, 2001). It is determined that 60% of the organizations in Fortune 1000 in USA know BSC very well and implemented it, this percentage in Swedish organizations was 27% and this percentage is to be estimated to increase to 61% within two years (Ax&Bjornenak, 2005), and in 1999, the rate of usage of BSC in USA is determined to be 43,9% (Rigby, 2001).

4. Opinions Relevant to BSC Implementation

With the aim of learning the opinions of the organizations that use BSC method, on this method, the question “Do you agree with the sentences below relevant to BSC implementation in your organization?” was asked. The sentences the managers were asked whether they agreed or not relevant to BSC are given below:

- Our departments that use BSC work more effectively than other departments,
- BSC can not be used in a healthy way because it is difficult to obtain the required information,
- It is very hard to implement BSC and its benefits are very little,
- Our quality implementations are compatible with BSC,
- Our rewarding system are directly connected to BSC results,
- The objectives determined for employees, are determined in harmony with BSC ,
- We take into consideration the results of BSC when forming company strategies,
- BSC was more beneficial to our organization than we expected,
- We recommend the usage of BSC to other organizations.

The participants of the questionnaire were asked to state their opinions by checking one of the following according to 5 Likert scale, as I do not agree (1), I absolutely agree (5).

When evaluating the answers received; 1,50 and lower percentages, selected “I never agree ”, between 1,51-2,50 percentage “I do not agree”, between 2,51-3,50 percentages “I have no idea”, between 3,51-4,50 percentage “I agree”, and between 4,51-5,00 percentage stated that “I absolutely agree”. Average and standard deviation of the executives related to BSC implementation is shown in Table 4.

Among the answers received from those who answered questionnaire, related to the learning their ideas about BSC, 4 have average 4,00 and above, the answers given to 3 have the average between 3,50 and 4,00. 2 of the answers given turned out to be below 2,00.

Table 4: Opinions related to the implementation of BSC

Opinions	N	Aver.	s.s.
Departments that use BSC work more effectively	63	3,8571	0,87726
BSC can not be used in a productive way because it is hard to obtain the required information.	68	1,7500	0,65506
It is very hard to implement BSC and it has few benefits.	67	1,7015	0,55089
Our quality implementations are compatible with BSC.	68	4,0882	0,78674
BSC results are directly connected to our rewarding system.	66	3,6515	1,05964
The objective determined for employees, are determined in harmony with BSC.	64	4,1250	0,91721

We take into consideration the results of the BSC while forming the strategies.	70	4,3714	0,76464
BSC had more benefits to our organization than we have expected.	66	3,8333	0,75617
We recommend BSC implementation to other organizations.	69	4,3333	0,65679

Hypothesis test was applied to determine the validity of general opinions related to BSC. Hypotheses were written as below:

$$H_0: \mu \leq 3,50$$

$$H_1: \mu > 3,50$$

Below suggestions are taken as alternative hypothesis and are tested by using “single sampling *t* test”:

1. Hypothesis: *The opinion “The departments that use BSC work more effectively” is valid for all of the executives.*
2. Hypothesis: *The opinion “BSC can not be used in a healthy way because it is hard to obtain the required information” is valid for all executives.*
3. Hypothesis: *The opinion “BSC results are taken into consideration when forming the company strategies” is valid for all executives.*
4. Hypothesis: *The opinion “We suggest BSC method to our organizations as well” is valid for all executives.*
5. Hypothesis: *The opinion “BSC has more benefits to the organization than expected” is valid for all executives.*

The results of the hypothesis tests related to BSC usage are give in Table 5.

Table 5: Test results for the opinions related to BSC implementation

Hypothesis	N	Average	s.s.	t value	Result
1. Hypothesis	63	3,8571	0,87726	3,231	Accept
2. Hypothesis	68	1,7500	0,65506	-22,030	Reject
3. Hypothesis	70	4,3714	0,76464	9,535	Accept
4. Hypothesis	69	4,3333	0,65679	10,539	Accept
5. Hypothesis	66	3,8333	0,75617	3,581	Accept

Level of meaningfulness: 0,01

According to the result of the hypothesis test, in organizations where BSC is used, the departments using BSC work more effectively than other departments, BSC results are taken into consideration when forming the company strategies and BSC has more benefits than expected. These organizations did not agree with the opinion that BSC could not be used in a healthy way due to the fact that obtaining required information would be hard. Additionally, the executives of the organizations that use BSC also suggest BSC to other organizations.

5. The opinions of the organizations that do not use BSC method, about using BSC method in future

The organizations that do not use BSC method were asked whether they thought of using this method in future or not. With this aim the question “If you never used BS in your organization, are you thinking of using BSC method in the future?” was asked.

The opinions of the organizations that do not use BSC method, on using the BSC method in future are given in Table 6.

Table 6: The opinions of the organizations that do not use BSC method, on using the BSC method in future

If you are not using BSC in your organizations, are you thinking of using it in future?	N	%
Yes, we are thinking of using it in the very short term.	13	8,0
Yes, we are thinking of using it in the long term.	47	29,0
I can not comment on this issue since I have no information on it.	55	34,0
No, we are not thinking of using it; we are happy with our existing performance management system.	40	24,7
No, we are not thinking of using it; I think it will not be very beneficial to us.	7	4,3
Total	162	100

60 of the organizations that do not use BSC method, (37,0%) stated that they planned to use BSC method in future. 13 of these (8,0%) are planning to use BSC method the nearest future, 47 is planning to use (29,0%) in the long terms. 55 of the executives who answered the questionnaire, (34,0%) stated that they were not informed on this method, 40 (24,7%) stated that they were happy with the existing performance system, and 7 (4,3%) stated that they thought it would not be very beneficial to them.

Coşkun (2006), in his research, have determined that in 25,0% of Turkish organizations, the usage of BSC was planned. The fact that this percentage increase to 37,0% can be interpreted as the organizations that are not happy about their performance measurement system, have received more information about BSC which is a new performance system, and have evaluated this system as a more appropriate system for them. In the research by Coşkun; while 39,71% of the executives stated that they could not comment on the BSC method, since they do not have any knowledge, in a similar work this percentage decreased to 34,0%, and the percentage of the organizations that did not think of using the BSC method with the opinion that it would not be beneficial to them, has decreased to 4,3% from 4,41%.

6. Expectations from BSC Usage

The question, “Which of the following were your expectations when selecting BSC method? (Please state in order of importance)” was asked to the executives of the organizations that implement BSC method or that plan to implement it.

The expectations of the executive in BSC usage are shown in Table 7.

Table 7: Expectations in BSC Usage

Among the following which one was/were your expectation in selecting BSC method?	N	Percentage
To guide the organization in the same direction with our strategies	43	18,1
To form organizational synergy	15	6,3
To establish a strategic management system	8	3,4
To establish the association of our strategies with planning and budgeting.	7	2,9
To establish strategic objectives	22	9,2
To determine strategic priorities	8	3,4
To guide our employees in the same direction with our strategies	7	2,9

According to the answers received first degree expectation of the executives in BSC usage, to guide the organization in the same direction with the organization strategy. Expectations according to the degree of importance are to place strategic objectives, to form organizational synergy, to establish a strategic management system and to determine the strategic priorities.

Managers have stated that their other expectations in BSC usage are management by objectives, to increase efficiency, to measure individual performance, to associate the objectives with financial results, to determine where the objectives are met.

CONCLUSION

It was seen that BSC was accepted in Turkish organizations, and they have started using it. The fact that the percentage of participation in the research was 50% can be accepted as an indicator of Turkish organizations

within the first 500 is interested in BSC method. As a matter of fact, statistical data also verify this situation. 17,64% of the organizations that are among the first 500 and which participated in the research use BSC in all departments, 4,62% use it in some of the departments. Therefore the percentage of the organizations among the first 500 that use BSC is 22,26%. Additionally, in 6,72% of the organizations that participated in the research have completed BSC project, and have reached the implementation stage. In the research done by Coşkun (2005) the percentage of BSC usage in Turkish organizations is 18,69% and the organizations that have completed the project and have reached the starting of implementing it in the short term is 2,80%. Even though an increase was determined in the usage of BSC in Turkey is still low when compared to its usage in the world.

The organizations that use BSC have stated that the departments which use BSC worked more effectively than others. In these organizations, the results of the BSC are taken into consideration when forming the organization strategies and it was stated that the benefits of BSC were more than expected. These organizations did not agree with the opinion that BSC could not be used in a healthy way and they even suggested that other organizations use BSC.

It was seen that 37,0% of the organizations that do not use were thinking of using this method. 8% of these organizations have stated that they planned to use BSC in the very short term, and 29,0% planned to use it in the long term. In the research of Coşkun (2005) while the percentage of organizations that do not have any information on BSC is 39,71% the fact that this percentage decreased to 34% shows that Turkish organizations' interest in BSC have increased.

The biggest expectation of the organizations which use BSC and which plan to use BSC in selecting this method, is to guide the organization in the same direction with the strategy of the organization. Other expectations are, depending on the level of importance, to determine strategic objectives, to form organizational strategy, to establish a strategic management system, and to determine strategic priorities. It can be mentioned that BSC, as is, is used compatible to its purposes in Turkish organizations.

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THE KEY DIFFERENCES BETWEEN BALANCED SCORECARD FRAMEWORK FOR PUBLIC AND PRIVATE SECTOR

Marcela Kozena, Michaela Striteska
University of Pardubice, Czech Republic

ABSTRACT

The Balanced Scorecard concept is a strategic management model that has unprecedentedly succeeded in a business sector. In recent years, Balanced Scorecard has been often discussed as a usable conceptual framework for the strategy implementation and strategy development management of public sector organisations. The purpose of the paper is to investigate the main differences between the BSC framework for private subjects and public administration institutions (especially local government). The main aim is to demonstrate how Balanced Scorecard could be modified to become a more suitable framework for specifics and needs of public organisations. Based on the literature review the theoretical construction for the research is developed. In order to meet the main objective questionnaire survey among local government authorities that have already employed the Balanced Scorecard was carried out.

Keywords: *balanced scorecard, strategic management, strategic performance measurement, local government.*

INTRODUCTION

Local government worldwide has come under the strong pressure to improve quality as well as efficiency of service delivery, increase transparency and stakeholder accountability. It is widely acknowledged that if they want to survive and prosper under the current globalize and competitive environment they must rapidly change their way of thinking and acting (Osborne, Gaebler, 1992). In response municipal and regional managers have applied some modern private sector management methods and tools. Approaches like total quality management, process reengineering, benchmarking and Balanced Scorecard have been implemented with varied results. Strategic performance management systems present a unique challenge to most organizations today, whether they are private, public or non-profit.

The current surveys show that only 10 % of organizations are able to implement their strategies, that only 5% of employee in the organization understand the strategy and that 60% of organizations do not link their budget to strategy (Niven 2003, Harvey, Creelman, 2004). Therefore it is more than necessary to impose the performance measurement to the strategic management (Ballantine Brignall, Modell, 1998, Kaplan and Norton 2005). Many strategies of public sector organisations are already outdated, but still valid, since no one measures their results. So how it is possible to solve these shortcomings in management of local government? Could be Balanced Scorecard (hereafter BSC) an efficacious instrument in local government environment?

The article proceeds in the following manner. First, the literature regarding performance measurement systems and BSC method in private sector is briefly reviewed and by case study analysis the main characteristics are defined. Second the main differences between private and public BSC on the basis of questionnaire survey among local government that had already used BSC method are identified. Finally, the research findings within the context of current scientific literature are provided. Logical methods of the scientific work are used in the first place when processing the article. Techniques and methods of questionnaire survey are used to gain the necessary data in order to meet the main objective.

Balanced Scorecard Method – the nature and the importance

Before we start to characterize the basic principles and processes of the BSC method, it is necessary to briefly define the nature of performance measurement system (PMS). Performance is about the potential for future successful implementation of actions in order to attain the objectives and targets (Lebas, 1995). In short it is the result of manager's decision-making. We can identify many reasons to measure company's performance.

The roles can be classified in three main categories (Centre for business performance, 2004):

- strategic,
- communication,
- motivational.

To understand the concept of performance management system we can use the comprehensive definition according to Franco-Santos, Martinez et al. (2004) that indicate PMS as a set of processes an company uses to manage its strategy implementation, communicate its position and progress, and influence its employees behaviors and actions. It requires the definition of strategic objectives, multidimensional performance measures, targets and the development of a supporting infrastructure. Performance measurement systems enable reasonable decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate information (Neely, 1998). In recent years could be seen increasing emphasis on forward-looking non-financial measures such as customer satisfaction or employee learning and innovation (Ittner, Larcker, 2001, Epstein, Manzoni, 1997). The traditional PMS based on financial and productivity measures are often criticised because they (Neely, 1999):

- encourage short-termism,
- lack strategic focus and fail to provide data of quality, responsiveness and flexibility,
- encourage local optimization,
- encourage managers to minimize the variances from standard rather than seek to improve continually,
- fail to provide information on what customers want and how competitors are performing.

Since the mid – 1980s, growing attention has been paid to the study of performance management systems as instruments for effective strategy implementation. As a reaction to the empirical findings that a number of strategic intentions have not been reached emerged the Balanced Scorecard model. The Balance Scorecard was introduced in the early 1990s as a part of a management system using non-financial as well as financial measures in managing a company and aligning these measures with the company's strategic objectives. The BSC concept has since been modified to become a performance management system designed to manage and realize strategy. The authors of the method Kaplan a Norton (2005) describe the BSC as a tool that translates the mission and the strategy of a company into an intelligible set of performance indicators which offer frameworks for the evaluation of its strategy and the management system. The benefit of the model lies in establishing a framework in which the culture and direction of an organization can be translated into strategies that are actionable, specific and measurable (Rohm, 2002).

Some scholars argue that the BSC is basically nothing new and its basic elements are identical with the MBO model (Drucker, 1976), which is based on three parts: the formulation of goals, the participation of the employees and the middle management on the formulation process of this targets and the feedback. For example, Johnsen (2001, p. 321) considers BSC to be an extension of the MBO model, focusing on feedback based on the set of the strategic performance indicators. The BSC is more than an indicator model which enables the control of the vision and strategy fulfilment. According to Niven, (2003) the BSC has three basic functions in an organisation: the measurement system, the system of strategic management and the tool for communication.

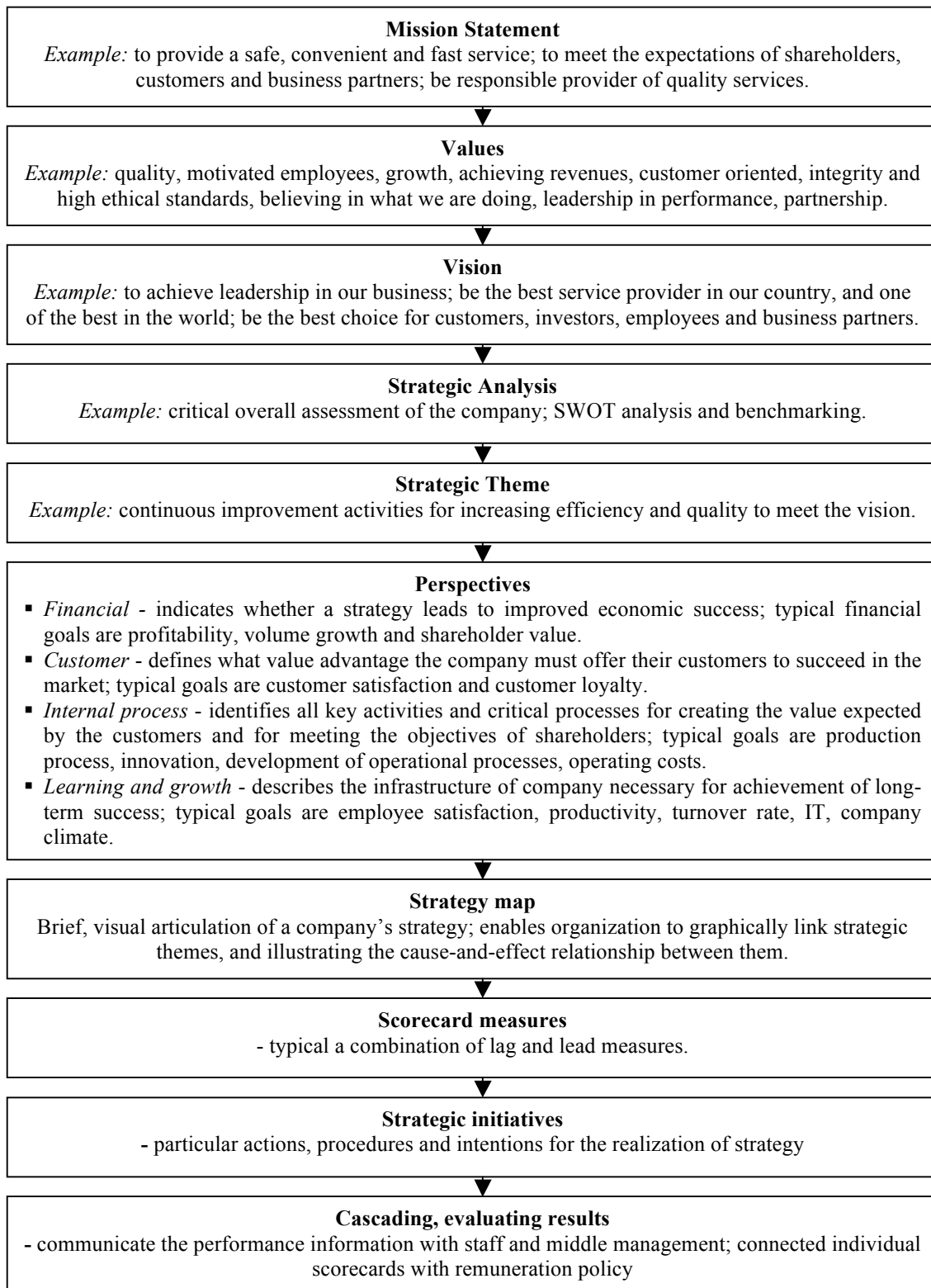
The creation and implementation of BSC – main characteristics

The core of the BSC method is the elaboration and the implementation of a vision and the strategy of a company into fixed targets and intelligible set of financial and non-financial performance indicators. The introduction of BSC means that the goals, the indicators and the strategic actions are assigned to a concrete point of view or the so-called perspectives (Horvath & Partners, 2004). By analysis of three case studies (UNUM Corporation, Air Cargo Terminal, THHK Czech Republic) the main characteristics of the strategic BSC framework for private organizations can be described. The data analysis of the case study was carried out according to Miles and Huberman (1994).

The general BSC model is looking at organisations from four strategic perspectives: the financial, the customer, the internal processes, and the learning and growth, all of them need to be balanced. The balance means the equability between the short-term and the long-term goals; required inputs and outputs; internal and external performance factors; and financial and non-financial indicators. Considering their significance, all the four perspectives are equivalent, from the point of view of causes and consequences, the financial goals in the company's model are influenced by the customer point of view which is affected by the perspective of internal processes and strongly determined by the capability to learn and to grow. It is necessary to highlight the fact that the BSC perspectives do not stand next to each other separately, on the

contrary, their interconnection provides a complete image of the company's activities and simultaneously documents key connections important for the realization of the strategy. In general, the BSC strategic framework can be characterized within several steps:

EXHIBIT 1: The main characteristics of BSC strategic framework



Resource: case studies - UNUM Corporation, Air Cargo Terminal, THHK Czech Republic

Research Design

A questionnaire distributed by electronic mail was chosen as a basic data collection method. A questionnaire enabled us to gather information and experience from foreign municipalities and regions that have been using the BSC method. The questionnaire was distributed to 60 respondents from Europe, USA and Canada, Australia and New Zealand, Asia and Africa. The sample of respondents was defined on the basis of scientific articles (Askim, 2004, Griffiths, 2003 Chan, 2004, Wisniewski and Olafsson, 2004) and freely available information resources. According these available information sources, just 60 cities and regions that are using or that have used the BSC method, was possible identified. This number corresponds with the foreign researches relating to the usage of the BSC method on the local government level.

The questionnaire's rate of return was 36%. The content of the questionnaire was focused on the current utilization of BSC methodology at the level of local government and on the identification of the best principles and procedures of its creation and implementation. Therefore it is possible by the synthesis of respondent's responses define the main differences between private and public Balanced Scorecard.

The key differences between private and public BSC

The implementation of the strategic management tools, based on the approach of the company is on the level of the local government accompanied by considerable doubts. This distrust is valid only if these tools and the approaches can be transferred without any necessary modification and adaptation to the conditions of the public management. According to Horvath & Partners (2004, p. 350), there are no essential differences between the implementation of the BSC in the private and the public institutions because the problems of the strategic management are similar, thus they require similar solution methods. In general, the BSC method in the public administration area "copies" all the processes of the private sector (general aims) and simultaneously it is defined by more aspects (specific aims). One can agree up to a certain point with this statement; however, with the growing number of the BSC implementations in the public administration domain some differences have been discovered.

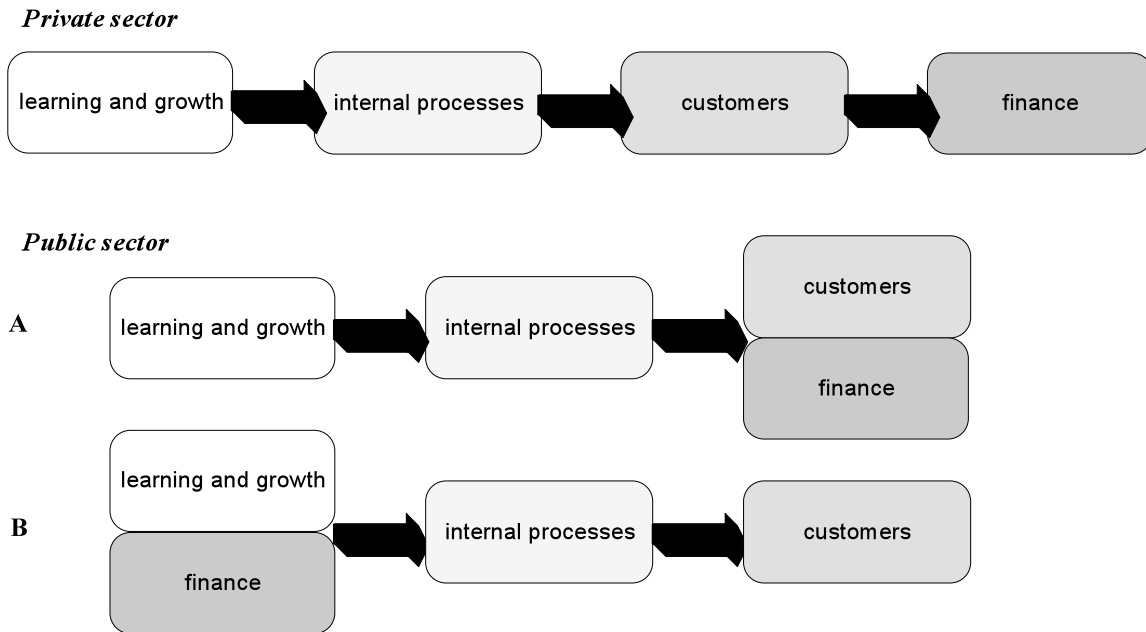
- ***The purpose of the BSC use*** - in the private companies, the scorecard is often seen as an instrument for performance measurement and management improvement. The main focus is on efficiency and performance measures. The primary particularity of the BSC adoption in the local government sphere is the fact that they need to pay attention to the legitimacy and the transparency of their activities. Therefore the communicative function of the BSC is much more emphasizes in the local government environment. Here is BSC understood as effective tool for external performance reporting as well as strong incentive for external accountability.
- ***The relevance of the traditional BSC perspectives*** – the original BSC introduced by Kaplan and Norton were designed for private companies with the aim to change traditional focus of performance measurement on financial measures only. Therefore the question of the relevance of these four perspectives rises.

According to the conducted questionnaire survey the customer perspective is not that appropriate for the needs of the local government, because it serves the users of the public services, and simultaneously to various groups in the concrete community. Sometimes was the perspective of customers renamed to the citizen or stakeholder perspective. This may correspond with the criticism of the original concept that, according to some authors, does not express the interests of all involved parties explicitly (Kaplan, Norton, 2005). In a company model, these interests (e.g. of staff, suppliers, community) are usually hidden in some of original perspectives. The BSC model for local government, however, has to "reflect" these interests much more explicitly.

Similarly, the learning perspective and the growth does not meet the needs of the local government's requirements. While the growth and the increase in the market share is a logical strategic target of the business subjects, to the public institutions, it is rather reasonable to reduce the range of some activities. remains constant, but they are renamed and adapted for the use of local governments. Within the evaluation of questionnaires, we met the adaptation of these perspective several times. This perspective is not suitable for many local units and we can encounter designations as "staff" or "human resources" more often. At the same time, it is necessary to say that 10% of the respondents of overall number introduced the fifth perspective that concerns the sphere of services. Likewise, the term process is not commonly used in the public administration. The results confirm that there are frequent tiny modifications or changed names of the perspectives that meet the local government conditions better.

- **The logical perspective hierarchy** - private sector model is not relevant for local government authorities. A clear difference results from the mission of local government that is usually defined by the act. The mission of local government is to take care of development on its area and of its citizens needs; and by accomplishment of its own tasks it protects the public interests as well. The customer perspective becomes at least one of the ultimate objectives. The architecture of the BSC model, adapted for the needs of the local government can be explained with the help of the following exhibit.

EXHIBIT 2: The logical perspective hierarchy



Resource: adapted from Wisniewski, Olaffson, 2004, p. 606

Finance could be seen as a comparable joint objective in terms of achieving value for money or as an enabler rather than objective. The exhibit shows that in the private sector the final goal is to be successful in the financial perspective, in the public sector it is important to be successful in the customer (citizen) perspective. The financial perspective could be at a comparable level that is understood as the effort to get a higher “value for money” that was available to the public institution (A alternative). Ostrizek (2007) defines the value for money as a ratio of cumulative costs throughout the entire duration of the project (in our case of the strategy) in the relation to the corresponding quality and the consumer benefits. Respectively, the financial perspective determines if a concrete strategy should be implemented or not according to a higher value for money. For public institutions, the core of this perspective is the effort to achieve cost efficiency, thus, to give the customers the maximum value from the public good or service in exchange for paid taxes. The second approach (B alternative) understands the financial perspective role primarily as a condition or a barrier which enables or restricts the achievement of the strategy. With both approaches we have met during the survey. Their selection depended on the respondent’s specific needs and conditions. These alternative hierarchies also must have implications for the creation of the strategy map.

- **The dilemma of measures** - the main problem here is that the effects of interventions by a local government are often difficult to measure. This is because public performance is multiple (they must do justice to different values) and achieved in co-production (in cooperation with third parties) (De Bruijn, 2002). In addition, the period between an intervention and its potential effect may be long. It is then in many cases difficult to measure the final outcome of intervention by an authority, especially when abstract goals like safety, integration or quality are included.
- **Different aspects of BSC implementation need to be highlighted** - there were several interesting application methodologies discovered during the identification of procedures and principles of BSC strategic system introduction. Basic principles and procedures of creation and implementation largely correspond to the theoretical baseline of business BSC, at the same time showing other specific signs. When introducing the system, individual respondents accentuate various BSC aspects based on specific

conditions. The most frequently mentioned aspect was to paid greater accent to change management. The organizational culture, thus the way of work of the complex of standards, values, attitudes and opinions, which are shared by employees of a particular organization, is closely connected with the management of a change. The management of local government has a functional character, which results in lower effectiveness and flexibility. It can be considered a primary barrier to improving the strategic management. Thinking of local government staff must be changed from functional to process one.

- ***BSC is not interconnected with remuneration policy*** – in private sector it is obvious to cascading the corporate BSC for each level of organization and connected individual scorecards with remuneration policy. This phase of BSC implementation is according to respondents view in local government much more complicated process. The results of survey reflect the fact that utilization of BSC as a tool for staff motivation and remuneration at the level of municipalities and regions is still at the beginning.

CONCLUSION

The public administration has been currently facing the unprecedented pressure in terms of changes in management, performance and quality. Implementation of modern managerial methods that originates in business is one possible way how to achieve the performance and quality improvement on the local government level. If the Balanced Scorecard framework is to modify to the conditions of the local government can represent such a modern managerial tool.

The main benefit of the BSC is a removal of the weaknesses of the current strategic management systems which in particular means the separation of strategic formulation from its implementation process. If the BSC method is correctly applied, it contributes to the new type of public institution which is, according to Osborn and Gambler (1992): „slim, decentralised and innovative. It is flexible, adaptable and it learns fast if the conditions change. It uses competition, it is focused on customers and uses other non-bureaucratic approaches in order to solve the problems as effective as possible and in a creative way“.

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ENTRY STRATEGIES AND STRATEGIC ALLIANCES

MANAGEMENT OF STRATEGIC ALLIANCE MAKING PROCESS AND THE CASE STUDY

**İnan Özalp
Senem Besler
Burcu Şefika Doğrul**

Anadolu University, Turkey

ABSTRACT

The main object of this paper is to disclose how enterprises' manage the process of forming a strategic alliance. In order to this, the paper is divided to two main parts: the first one provides a brief overview of strategic alliance literature, and examines basic concepts, and various studies related with the subject; the second one gives the process of making strategic alliance via a sample application and then presents theoretical and managerial findings of this application are evaluated.

Interview and document inspection among qualitative data collection methods have been used in the research. At the subject company of the case study, strategic alliances are realized by passing through certain stages. As also emphasized in the findings, the company is both an outsource provider and an outsource receiver in terms of the type of alliance it makes. The stages followed up can be listed as follows, as also supported by the literature: 1-feeling the necessity of building a strategic alliance, 2-determination of the type of strategic alliance, 3- selection process of the strategic alliance partner (preliminary preparations, receiving proposals, conducting technical study and pricing), 4-negotiation process (first preliminary outsourcing contract, nomination process, making a prototype and reaching the stage of actual contract, signing all contracts and realizing alliance.

Keywords: *Strategic alliances; International strategic alliances; Strategic alliance making process.*

INTRODUCTION

Under the rapidly changing competitive conditions, enterprises opt to cooperate with their counterparts, even with their competitors to protect and develop their market shares and technologies. Strategic alliances, as a form of this cooperation, have now turned into a requisite for most sectors. As a result, a significant increase in the number of strategic alliances has been observed in recent years as a "strategic alternative".

The realization of strategic alliance should be considered and analyzed as a process. In the beginning of this process, the reasons or circumstances which impel enterprises to conduct strategic alliances should be identified. The other stages of the process include selecting the partner with whom the strategic alliance is to be formed, identifying the type of alliance, negotiating on the alliance agreement, and finally undersigning the agreement.

This study initially examines strategic alliance literature, and examines basic concepts, and various studies related with the subject. Secondly, the process of making strategic alliance is analyzed via a sample application in stages. Finally, the theoretical and managerial findings of this application are evaluated.

LITERATURE REVIEW

Collaboration and acquisition are two of the strategies the enterprises apply in order to access external resources for growing, and choosing one of them is becoming more difficult, yet inevitable under the

changing business conditions. The basic point of separation of the two strategies is associated with the enterprise's maintenance of its legal and economic independence (Hoffman and Rinkel, 2001: 132). In this context, acquisition strategy is taking over the control of an enterprise through buying its shares or ownership. Meanwhile, cooperation strategy combines or modifies enterprises' sources and services, wherein the enterprise gains competitive edge but still maintains its independence legally.

As a form of collaboration, strategic alliance finds various definitions in the literature. In the simplest sense, strategic alliance is defined as sharing technological and/or market resources between two enterprises or as the cooperation agreements between actual or potential competitors (Hill, 2002:497; Akkaya, 2007: 1; Chenga, Lia, Loveb and Iranic, 2004:459).

Another definition emphasizes that strategic alliance is a common name for solidarity and resource consolidation activities which emerge in various ways among enterprises. Examples to such alliances are mentioned as the enterprises' agreement to use the same distribution channels, make joint investment, conduct joint information bank or R&D activities, provide production and selling authorization, and outsourcing (Dinçer, 1998: 288).

Meanwhile, Ülgen and Mirze's (2007) definition of strategic alliance highlights it as "the contract-based collaboration of two or more enterprises without establishing a new company under a new name or identity, but only share their certain assets and capabilities for the purpose of realizing certain goals that they care for".

Types of Strategic Alliance

Enterprises develop alliances by using different organizational and legal structures. In the literature, the most common classification of strategic alliance agreements is noted as equity alliance and non-equity alliance. Equity alliances cover joint ventures and strategic alliances with minority shares. These alliances are a kind of alliance created by one or more partners through changing stocks without creating a new business. Meanwhile, in non-equity alliances the cooperating enterprises conduct the operations of the development of joint products and services without creating any independent units in order to develop, produce or sell products and services together. These cooperative relations are generally conducted with different types of contracts. Examples of these agreement types can be listed as regional agent and dealer agreements, license and know-how agreements, subcontracting agreements, turn-key agreements, R&D agreements, joint product development, long-term resource utilization, joint production, joint marketing, distribution, franchising, management & marketing agreements outsourcing and the others (Çakınberk, 2009, p.172; Rugman and Brewer, 2003: 404; Zaboş, 2009:248).

In another classification, strategic alliances are divided into two according to the identification level of the strategies. The strategic alliances on corporate level are made as differentiation-focused, synergy focused and franchising. Depending on the strategies on enterprise level, the strategic alliances are divided into two as vertical and horizontal. Horizontal alliances are made among directly or indirectly competing enterprises; while vertical alliances are the types of alliances conducted by the enterprises with the others within their supply chains. The relations between the buyer and the seller or the manufacturer and the service supplier, license agreements, distribution agreements and supplier agreements can be shown as examples to vertical alliance (Ireland, Hoskisson and Hitt, 2008: 177; Loke, Sambasivan and Downe, 2009: 373; Sporleder, 2006: 159). In this scope, outsourcing agreements are regarded as a strategic alliance. Outsourcing is a management strategy which enables enterprises to focus on their core competencies that provide competitive edge, and benefit from the organizations specialized in the subject matters which are not included in their actual areas of activity. Outsourcing can also be defined as delegating a work, which was previously realized within the company, to a supplier from outside who is specialized on that subject with a long term contract (Aydın, 2007:143; Hitt, Ireland and Hoskisson, 2005:272).

Strategic Alliance Making Process

In various sources, the process of making a strategic alliance generally follows the sequence of first feeling the necessity of making a strategic alliance, then determining the type of strategic alliance, choosing the partner and the negotiation process, completion of the alliance and its conduct (Hoffman and Schlosser, 2001: 359; Devlin and Bleackley, 1988: 20; Kaasalainen, Mäkinen and Näsi, 2002: 214-215). However, this sequence may change depending on the subject of activity, purposes, environmental conditions and expectations of enterprises.

The process of conducting strategic alliance begins when each enterprise finds goals and/or reasons for itself. According to Doz and Hamel (1999), enterprises' purposes for realizing strategic alliance include cooperating with their potential competitors and prevent them from creating a threat, to move together with the enterprises that produce complementary products to create network economies in favor of the alliance, to outsource the complementary products/services that they cannot develop on their own, to create value due to the synergy created by the alliance, and especially to ensure learning and internalizing basic competencies. In a research (Çakınberk, 2009), the strongest reason that impels the enterprises in Turkey to build strategic alliance was expressed by 74.5% as reinforcing their positions in competition. Other reasons following are noted as transferring new technology, accelerating the creation of new products or services, gaining place in new markets and increasing market share.

The type of strategic alliance must be identified in the second stage of this process. The duty of enterprises is to properly analyze what they do, the conditions of industry and the competitive structure. All managers who participated in a study conducted by Yoshino and Rangan (1995: 79) expressed that they believed whether the alliance would be successful or not depends on the type of alliance. In general, the type of alliance is expected to add value to the enterprise and reduce costs. According to a study conducted by Çakınberk (2009) in Turkey, it is noted that most of the strategic alliance agreements realized by the participating enterprises of the study were joint marketing agreements (13.6%), and the share of outsourcing agreements is 4.2%. In another study (Aydın, 2007), outsourcing of logistics services in the supply chain management is defined as third-party logistics, and it is emphasized that the relation between the enterprises which provide these services and their customers is a typical strategic alliance relation. Here, it is indicated that the relation which begins with a contract mutually provides benefit in time and turns into a continuous alliance.

After the reasons of making alliance and the scope are identified, the stage of selecting a partner is reached. At the stage of selecting the partner, the senior management should outline the company's strategic position and expectations and identify potential partners accordingly. In the literature, general characteristics of partners are evaluated from the points of trust, commitment, complementariness and financial status (Devlin and Bleackley, 1988: 21; Shah and Swaminathan, 2008: 472; Hanna and Walsh, 2008: 302). Especially in vertical strategic alliances, although the contracts have binding properties, the creation of mutual trust between the partners of the alliance increases the effectiveness of the collaboration. Owing to the trust, the parties spend less time and effort while trying to fulfill the conditions of a contract and the process of learning from each other can be facilitated. For example Nike works with different types of suppliers for footwear manufacturing. However, the 1st rank suppliers include those with a bond similar to a strategic alliance rather than relations bound to a contract (Ireland, Hoskisson and Hitt, 2008: 173). In addition, the market knowledge of the partner, its connections with the main supplier or customers, its reputation, size, experience in previous alliances are also the characteristics that should be taken into consideration (Aydın, 2007: 121–122).

The process of making a strategic alliance continues with the negotiation process in which the mutual expectations, rules, and procedures are set forth and the agreements are signed. The issues to be decided during the discussion process include the provision of equal contributions by the partners of the alliance, clarification of the issue of preserving core competencies, the determination of the sources to be opened for use, dwelling on the conditions to prevent opportunistic actions, determination of clear and realistic objectives, making a clear definition of rules, rights and duties, and clarification of the expectations of the parties (Hoffman and Schlosser, 2001: 361-363; Elmuti and Kathawala: 213).

Together with the realization and beginning to conduct strategic alliance, the final stage of the process is reached. At this stage, the alliance continues its activities in order to reach pre-defined objectives, by obtaining the support of senior management and by building a communication-coordination system. The results obtained regarding the performance of the partners of the alliance, the control of the transfer of sources, the learning process, and achieving the objectives allow the partners to decide on whether terminating or continuing with the alliance (Hoffman and Schlosser, 2001: 363-364). However, the stages of continuing and terminating the alliance are excluded from the scope of our study.

METHOD

Importance of Research

In the current century, the developments in the economic, social and technological area caused to the globalization of markets, and a change in international competition. Long-lasting products, stable customer

requirements, certain national and regional markets and clearly known competitors have now been replaced with new products, changing customer needs, short product life-cycles, and global markets. **This race in competition** has led enterprises into new inquests. Therefore, in this competitive environment which has gradually become more complex, enterprises began to look for something new and felt obliged to reconsider not only their organizational structures but also strategies. One of them is the strategic alliances in which two or more enterprises come together to realize a certain purpose. Strategic alliances are an important basis for enterprises to continuously grow and stay on foot; and it is an easy way to outreach the sources and talents that enterprises may require. In short, it is a great source of power for sustainable competitive superiority. Therefore, how strategic alliances emerged in the business world and how they are managed is an important research subject. It is believed that the results obtained from the research will be influential in increasing the effectiveness of making a strategic alliance in practice.

Purpose of Research

The core purpose of the study is to disclose how enterprises' manage the process of forming a strategic alliance.

According to this core purpose, the study probes for answers to the following questions:

- Why do participating enterprises need alliance-
- What kind of a strategic alliance do they make
- Which criteria do they take into consideration when selecting the correct partner for alliance,
- How do they form the correct type of alliance.

Method of Research

The method used in the research is case study, among qualitative research methods. Case study elaborates an environment, single person, single type of document of or case.

The analyzed unit of the study is Esalba Metal Company, which is registered at Eskişehir Chamber of Organized Industry, operating at Eskişehir Organized Industry Zone, and established to serve in automotive, household appliances, defense industry, lighting and ventilation sectors.

Interview and document inspection among qualitative data collection methods have been used in the research. The data have been collected through semi-structured interviews. A series of questions have been listed for interviews. The interview questions have been prepared to deeply question the alliance forming process of managers. The questions include many details related with the justifications behind selecting an alliance partner, how the alliance partner is selected and what kind of an agreement is made. Each participant is provided with preliminary information before the negotiations. Totally two managers have been interviewed with at the analyzed enterprise. When selecting these managers, the managers who actively participate in strategic alliance decision and process have been taken into consideration. The interviews have been recorded with a recording device and then they have been transcribed and analyzed. Interviews lasting respectively 75 minutes and 60 minutes were made with the first and second manager. Three specialists from the field have conducted analyses according to the categories that have been defined independently. A common opinion has been reached, its validity and reliability has been ensured as a result of the comparisons.

Limitations

This research should be considered by taking into account the following limitations.

- Inability to benefit from multiple data collection methods
- Time restrictions of managers (as they are senior level managers)
- Voice recording may prevent the actual thoughts of managers
- The low number of participants

The enterprises and managers involved in the research

The enterprise at which we carried out the study is a supplier industry enterprise which conducts the activities of forming sheet components, called stamping in international literature, which are required by the automotive and household appliances industries. The enterprise was opened in 2006 as a joint venture of Cerrahoğlu which is among the first major shipping companies of Istanbul and Albakom enterprises. In this family business, Cerrahoğlu Company participated with its capital, while Albakom Company contributed with its knowledge and expertise in stamping for three generations.

The managers of Esalba Metal Company, which is acting in the private sector in Eskişehir, also took part in the research. The participants included two senior managers; one of which is financial and administrative

affairs manager, and the other one is the manager of commerce. In terms of demographic properties, the ages of the participants are 49. The average number of employees at this company is 150, and the company was founded as a family company. The basic areas of specialization of the participants are respectively business engineering and economy. Both participants have completed their education at MBA level.

FINDINGS

The data obtained from the studied enterprise were first indexed within the framework of concepts and themes, then the created themes were coded and interrelated themes were brought together and classified in accordance with certain categories. During the creation of the categories, the questions used during the interviews were taken into consideration. Three specialists from the field secondarily read the entire data set and checked the created themes and categories.

The findings of our study are listed according to the secondary objectives and the stages of strategic alliance building process.

I. Feeling the Necessity of Building Strategic Alliance

One of the most important reasons why the examined enterprise builds alliance with the strategic partner is the acquisition of “industrial culture” according to their expression.

A: “Electrolux made the first refrigerator, or Renault made the first car 250 years ago. There is an infrastructure and knowledge based on 250 years. There is a learning process.”

*A: “Therefore, company culture and industrial culture are different. There is industrial culture before the company culture. And what lies in the infrastructure of **industrial culture** is: knowledge. It is mathematics, physics, machinery knowledge, design, and process knowledge. And what is missing in our country is this industrial culture. We receive **industrial culture** from our customers.”*

The second major reason is the owners’ and managers’ vision “to become a well-known and trusted global supplier”.

*M: “For example in the automotive industry, there are certain companies that we have chosen as targets; in order to reach those companies, we are willing to act as a secondary supplier if required, but by aiming to become the first supplier through production quality products and exceeding expectations and offering solutions beyond those expected from us. We are even advancing towards the objective of becoming a **co-designer**, which is also included in our vision.”*

*A: “Now there is a tremendous cooperation beyond us, for example a strategic cooperation. You are to pass through several audits, discussions etc. before entering through the gate of Electrolux. But when you enter Electrolux, it has 300 factories around the world. That is, you work on a global scale with each factory; can you obtain that just with money?” You are becoming a **global supplier**.*

*A: “First of all, its initial impact is not something that can be underestimated, its **opening you to the market**. ...That is, if you begin to make components for this group within the framework of our strategic cooperation, then it means you are opening to the market... Then the ball is in your hand... That is, it opens you down to the bottom of that market. Requests for proposal are beginning to come from everywhere.”*

And another reason is becoming “sustainable”. The expression of a manager in this regard is as follows:

*M: “That’s why we are working together with the supplier organizations with which we can move together. We wish to trust each other, have a **sustainability** of this work and win and win together. We can also take part in its objectives but of course we are looking at our own objectives.*

And the fourth reason is the desire to make joint venture agreements, which probably arises as a result of the completion of the other three reasons. As can be understood from the opinions of the managers, the enterprise is willing to become a part of larger partnerships as a result of the earnings from supplier and outsource agreements. The expression of a manager in this regard is as follows:

A: “Our cooperation is at this extent. And now imagine Esalba 3 years later. When the turnover is not 15 million Euros but 50 million Euros instead. Then we are going to begin looking for a merger for our daughter. A daughter should reach a proper age to marry her. You cannot give in marriage an 11 year old girl, can you? She needs to reach maturity. Now, you can say that you are going to appear in the international market. These things never happen with consulting companies.”

M: "This is just a place for 4 years. I mean it is very young. Actually, the position it has obtained in the market is very important despite its age. We will absolutely fulfill this objective of partnership; we believe but it is not something which can happen in only a few months."

II. Identification of the Type of Strategic Alliance

Identification of the type of alliance is the second stage of making strategic alliance of the studied enterprise. The type of the alliance made is in the form our outsourcing agreements within the scope of vertical supplier alliances. The enterprise is both an outsource provider and outsource receiver.

As an outsource provider, the company makes agreements for producing the components required by the enterprises acting in household appliances and automotive industries (Electrolux, Arçelik, Tofaş, Bosh Fren, Demirdöküm, etc.)

A: "In the household appliances and automotive industry, the companies called supplier industry similar to us are becoming candidates for the works which were previously conducted by the main company. For example, there are many plastic components in a car or a refrigerator. Certainly 19,000 of the 20,000 components in a car are outsourced. Actually the current rate of outsourcing is 95% and the remaining is just installation."

A: "We are one of the supplier industries that cover sheet component requirements of automotive and household industries. For example, let's say oven. Think of an oven. 90% of an oven is metal sheet."

At the position of outsource receiver, the studied enterprise outsources the components required during the production process (designed according to the expectations of the main company) from other companies.

*M: "You made a design but there is a physical thing, something that should be produced. We are talking about hundreds of pieces to make and achieve in a short time. Then you know how to do it. You already designed, drew how it should be made, and now only producing it by looking at that drawing is required. Therefore, you have to **outsource** that, some of its components."*

*M: "You can **outsource**, this is how we perceive the issue from our customers' perspective; but we also look at it from the point of our suppliers similarly to see what are our operations and structures that we can **outsource**. This works on both directions for both us and them."*

III. Selection Process of the Strategic Alliance Partner

Because the studied enterprise conducts bilateral alliances within the scope of vertical supplier alliances (as about outsource provider and receiver), the process it follows includes certain differences.

Preliminary planning

This is a stage where the desire of the enterprise to make a strategic alliance in its vision and objectives is found, and where the associated preparations are made.

As an outsource provider, the enterprise tries to reach the resources that may be required, such as human resources, technical equipment and capital structure. In the meantime, it also deals with the activities which provide a basis for partnership connections.

A: "In order to market something, you need to reach a certain size. Now, this includes many things; a turnover, customer relations value added, customer, profitability, etc. There are many things."

A: "I need to hire people who work properly, I need to hire people who have knowledge, I need to buy good machinery but if you don't do them, then you cannot achieve your main goal."

A: "I mean whether you search on internet, enter the society at an evening dinner, or go to exhibitions; each one is a technique. That is, you should travel the world all the time."

*A: "There is a computerized request for proposal system. You become a member to that **portal**; that is, you become an approved supplier. All quotations automatically drop in our system... The quotation system."*

As the **outsource receiver**, while the enterprise is producing the requirements of the company to which it is supplying products, it also has to outsource certain works in order to realize the mentioned production process in time. Accordingly, the enterprise tries to find out the areas in which it can undersign outsource agreements. In finding the alliance partners, the company rather acts by benefitting from recommendations and references. At this stage, initially the commerce department of the enterprise takes a step. Then the other units move.

M: "...but also from the point of our suppliers, we see what the operations are and what the structures that we can similarly outsource are"

M: "We select partners for us in some fields. We orient certain works directly there."

M: "First of all, we benefit from recommendations and references during the research. First, we are certainly trying to find out their references, and the works they have done. Just knocking our door is not enough for being accepted. We contact the people with whom they worked and seek to find out which works they previously achieved. And in general, people in this community know each other. They also benefit from each others' skills. This is a very effective and strong structure. And the results are not very bad, that is, they are not misleading."

M: "In the first stage, the commerce department plays a major role in both purchasing and sales. They slightly maturate the issue... Then the decision to work together is generally a common decision that we take altogether."

The criteria considered

When the studied enterprise signs outsourcing agreements, it takes into consideration certain criteria such as being strong in selecting the alliance partner, and having an industrial culture.

M: "Among the automotive companies we are trying to select those which are strong in the world and in Europe, and which are also strong in Turkey."

A: "What we initially receive from our customers is industrial culture, that is knowledge. We take the knowledge that the guys created in 250 years. We take the process know-how."

We see that the enterprise we have studied is more selective about selecting their own suppliers. They are willing to work with the enterprise which has the attributes in which they feel they are weak in terms of capacity, time and cost.

M: "A partner who can cover up the **aspects in which we are weak** in the strongest way possible. This is the first criterion. I mean, the aspect in which we are weak may be related with **capacity**. It can also be related with **time**. That is, someone who can produce fast..."

M: "We found an organization which could make **free from mistakes** as much as possible and help up. Of course, when selecting it, we consider everything; being **near to us**, producing **quality** work, **price**, etc. Only one or two criteria are not enough. But of course, for most of the time the price may be important in the second or third rank. And first of all the quality and speed is important; is it able to complete in time? Can it catch up with the deadlines that we request?"

M: "...first, we benefit from recommendations during the research. We benefit from the references. First, we are certainly trying to find out their references, and the works they have done. Just knocking our door is not enough for being accepted. With whom they worked and which works they achieved previously? We contact with such places."

Proposal stage

At the point of providing outsourcing, the enterprise receives proposals from the main companies. At the final stage of the outsourcing process of main companies, the enterprise that we are studying steps in and the drawing of the sheet component which is required to be produced by main companies in the last one end a half year is handed over to them. Manager A has shown us many documents from the component drawings and received proposals as samples. If the enterprise is the receiver of outsource, then it communicates its proposal related with the subject of alliance to the partners who are found according to the criteria.

Conduct and pricing of technical study

After the proposal is received by the company which is to provide outsourcing, the stage that includes the conduct of all detailed analysis on the proposal begins. At the point that receives outsourcing, this stage is the period when the enterprise waits for the analyses of its supplier.

A: "This is the picture Volkswagen, a sheet component over the shock absorber set... This picture is now delivered to you. And we are making the technical study and price study according to this picture and presenting it to the customer. But the customer buys it from several places similar to me."

A: "Of course the extent of the work is very important, but first, can we produce that component? Can that component be produced by our knowledge and at our machinery park? Immediately a technical study is conducted if it passes through manufacturability criteria. During the technical study, answers are searched for the questions such as at which machine would that process be made, in how many seconds, with which mold, and how much will the labor cost be? A detailed cost analysis is carried out one by one."

A: "Then, according to this technical solution, in the trade department I am involved in the process. We break down the entire information on a cost analysis form and bid for that component."

IV. Negotiation Process

First interim outsourcing contract

This stage begins when the enterprise is in the position of the outsource provider. Any statements of the managers indicating that they signed such a contract as the receiver of outsourcing have not been observed.

The parties enter the process by signing various interim contracts after the main company's preliminary acceptance. The interviewed manager describes these contracts between the parties as "a death warrant", and expresses that the parties pass through several modifications before the documents turn into a contract. As can be seen from the examined documents, the documents are subject to many processes.

A: Here, the customer has criteria. What is he going to look at; he is going to look at the price, the quality, whether we can do it, which means, being reliable is important. From those 1.5 years ago, you take that first picture, and this outsourcing agreement is made during this process, the contracts are made."

*A: "It's like; even they will almost ask your mother's **maiden name**. Here, for example a **death warrant**, from whom did it come finally. It was from Electrolux, general permission, perceiving agreement"*

A: "Purchase tools, how does the business run, how are the modifications made, how are the tests done, how is the approval done, how do the quality guarantees happen, how is approval obtained, how are quality warranties made, what are warranty conditions, how should manufacturing conditions be, how should pricing be done, how should deliveries be done, how should product responsibilities be ..."

In this process, it can be concluded from the experiences of the enterprise that the size of the enterprise and its power are influential in determining the conditions of the contract.

*A: "For example we received a small work at Tofaş; I said Tofaş come on, the articles of your contract are like a **death warrant**, please change this part... And he says hey Mr. Ahmet, who are you?... He says, if there are such problems then don't get involved in this project at all, I can get it to someone else."*

*Y: "Yes, unfortunately we cannot have many expectations, why? Because of the **balance of powers**. For example, let's say Electrolux is on the other end of the table. And the group turnover of Electrolux is 12 billion Euros. You cannot say 'Electrolux hang on, I'll have caprices'. We are obliged to do the work given. For example like Bosch, Valeo, Siemens. Therefore, frankly we, as the small enterprises, do not have any enforcement powers; therefore we do whatever the customer wants."*

Nomination process

The enterprise in the status of the provider of outsource is inspected by the main companies during the 5-6 months process which they define as the nomination process. This process can also be considered as a kind of persuasion process.

M: "You are passing through many inspections; technical inspections, financial inspections and so on. These inspections are mostly made within the framework of quality systems. That is, they are beginning from sales, questioning all your processes, how you do business and what your processes are. They open up the processes we use, and we say look this is how we are doing it. And they look at the strong and weak aspects of this system. They ask us to improve if there is something wrong."

Y: "...Now the customer nominates you there, and maybe this process lasts for 5 or 6 months. The customer nominates you here. He says, ok you've got the job."

The length of the nomination process when the enterprise is the provider of outsourcing may change depending on the type of industry and the specifications of the work. In addition to physically examining its suppliers, the enterprise also realizes various inspections according to the criteria that it is searching for.

M: "Of course we also perform physical inspections. A company is required to pass through our audit."

M: "Our audit is realized in every aspect. We are supervising the opposite company from the aspects of quality and commerce. I mean, it is not just a technical inspection where two people come together. Nevertheless, we continue following each other closely for some more time. This is something in continuity."

M: "Everyone examines the issue and closely monitors with the nearest counterpart to his level, to whom he can reach, and accordingly, we are frequently informing each other as a team and follow the course accordingly."

The production of prototype and reaching the actual contract stage

After this preliminary acceptance, the prototypes of the requested product are manufactured. After passing to bulk order, they reach agreement with the approval of the main company. However such an operation is not mentioned when the enterprise is the receiver of outsource.

Y: "...you produce the piece, samples in the 1-year process, and you produce the first prototype. Now I am beginning to send you bulk orders... And in that 1 year and 8 months process, the prototypes, approvals, customer approvals so on."

Signing all contracts and realizing the alliance

After a decision is given between the enterprise providing outsource and the main company to work together, the main contract is signed.

A: Then, nearly a period of 1 year, a period between 12 and 8 months remains. Now everything is alright, you are at the stage of contracting.

A main contract is also signed between the outsource receiver enterprise and its supplier when the parties decide to work together. However, a manager indicated that in addition to the contract, fair play agreements were also importance during the alliance process and during the conduct of the alliance.

M: "It is bound to a contract. Also the contract's requirements are closely monitored. Well, actually the contract already includes many sanctions."

M: "But being bound with a contract means a decision has been given to set off together".

M: "... but for us, the important thing is the spoken words. They are important for us although there is not a contrary situation. When we give a promise, we pay attention to fulfill it even if it is not written in the contract."

DISCUSSION

Our study shows that, the strategic alliances of enterprises directly contribute to the enterprise, and indirectly, it is an important source which provides sustainable competitive superiority. It allows for reducing costs, gaining speed, increasing quality, and acquiring industrial culture on the one side and it allows for the enterprise to act in a global market on the other side. As also supported by the studies in the literature, the strategic alliances also create network economies at this enterprise, and contribute for producing and marketing the products which cannot be produced by the enterprises on their own.

Another issue related with the strategic alliances claimed in the new literature is the core competencies. If the core competencies of the allying enterprises would be inter-complementary, then they create the opportunity to obtain important advantages for the enterprises. In this context, the core competencies of enterprises have an important place in the formation of alliance. Although it is not directly included in the scope of our study, the analysis of the alliance building process also reveals about which core competencies the studied enterprise and its partners come together. The most important competencies of the examined enterprise include design, technology and human resources. The managers that we have talked have dwelled on these two elements about the reasons why the strategic partner chose them. The trust they have provided to the other party about the quality of work and production of work is also another major characteristic and competency of the enterprise. With regard to the competencies of strategic partners, the industrial culture comes forth at the main enterprises, meanwhile, the conformity of quality-cost-speed-capacity comes forth at the companies from which they receive outsource. They have had the opportunity to reach the sources and competencies they lack by virtue of strategic alliances.

The type of alliance performed by the studied enterprise is outsourcing agreements. Through these agreements, the enterprise obtains certain works from main companies on certain issues (in their own businesses) and better specializes, meanwhile it can also more closely monitor the market and accommodate with the changes more quickly. Besides, because it is preferred as a reliable partner, it can also assist main companies in reducing costs and increasing their profitability. One of the managers that we have interviewed exemplifies this with certain activities that they call "make or buy analysis". With this analysis, the enterprise compares the cost of producing on its own with the cost of outsourcing and tries to make the best decision. With this aspect, outsourcing practices also positively influence the development of the core works on which the company is concentrated.

At the subject company of the case study, strategic alliances are realized by passing through certain stages. As also emphasized in the findings, the company is both an outsource provider and an outsource receiver in terms of the type of alliance it makes. It has been observed that being at different positions does not cause to great differences between the processes. The stages followed up can be listed as follows, as also supported by the literature: 1-feeling the necessity of building a strategic alliance, 2-determination of the type of strategic alliance, 3- selection process of the strategic alliance partner (preliminary preparations, receiving proposals, conducting technical study and pricing), 4-negotiation process (first preliminary outsourcing contract,

nomination process, making a prototype and reaching the stage of actual contract, signing all contracts and realizing alliance).

In both practice and in the literature, many examples indicating that the enterprises built as joint venture have failed. When we look at the reasons behind these failures, we first reason is noted as that the partners cannot properly analyze each other. Getting acquainted with each other in enough time with all their aspects bears great importance for the success of the agreements. In this context, being in continuous cultural and industrial interaction with the alliance partner of the enterprise that we are examining will bring a very great advantage to the enterprise that we have studied. When it reaches the stage of realizing joint venture agreements, which is determined as a prospective goal, it will be able to stand beyond its competitors.

Another important conclusion of our study is that, the managers that we have discussed prefer obtaining information from alliance partners instead of universities. The reason is the belief that they could learn the most correct method in the shortest time from their partners, and their experiences have proved that. Such information that they acquired during the learning process can either be technical information related with production, or they can also be related with the acquisition of a culture that prepares grounds for disciplined and efficient working. And this explains the role of alliances in the process of learning.

During the process of making strategic alliances, especially the negotiation process requires an intense labor and time, and plays an important role in the successful conduct of the alliance. This process plays an important role in terms of both the acquaintance of alliance partners each other and both clarifying the objectives of the alliance. We can say that the enterprise that we have examined has managed the negotiation process properly, and has shown a great care in making the required inspections, identifying the contents of the contracts and fulfilling the requirements of the contract.

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A STUDY ON THE ENTRY STRATEGIES OF TURKISH COMPANIES TO THE DEVELOPING ECONOMIES: CASE OF ROMANIA

İbrahim ANIL

Gaye ÖZKASAP

Marmara University, Turkey

ABSTRACT

There is a wide literature about companies' entry-modes (acquisition and greenfield) (Hennart and Park, 1993; Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Demirbag, Tatoglu and Glaister, 2008) and ownership preferences (JV and WOS) (Anderson and Gatignon, 1986; Padmanabhan and Cho, 1996; Delios and Beamish, 1999; Makino and Neupert, 2000; Yiu and Makino, 2002) that they use while investing to abroad. In terms of the entry-modes, the explanation capacity of Institutional Theory, Transaction Cost Theory and Resource Dependency Theory, which are called as Entry Strategies, has been measured by several studies. However, since it has been understood that when these strategies are evaluated separately their explanation capacity decreases, the new approaches have been using for a while. One of these new approaches belongs to Dunning. According to Dunning's approach (1988, 1993), which is called as OLI, the explanation capacity of these theories would be enhanced by integrating them. This approach has been used in the new studies.

The aim of this study is to contribute to the relevant literature that mentioned above by understanding that which entry strategy would explain the behavior of Turkish companies while investing to one another developing country. It is stated in the relevant literature that the development degree of the institutional structure of a host country has a significant importance on the entry strategy and ownership preference of a foreign country (Peng, 2003; Meyer, 2001; Peng and Zhou, 2005; Meyer et.al.,2009). It is well known that companies choose appropriate entry strategies in accordance with this institutional structure. In the countries, in which institutions have not diffused yet, foreign companies prefer to use JV as an entry strategy by collaborating with a local company in order to reduce risks and ensure legitimacy. However, in other countries, in which institutions diffused widely, foreign companies prefer to use WOS (Yiu and Makino, 2002). In addition to that, the limitations of the host country on the acquisition or greenfield (WOS) influence the companies' entry decision (Gomes-Casseres, 1989; 1990; Padmanabhan and Cho, 1996; Cho and Padmanabhan, 1995). The Transaction Cost Theory addresses the entry and ownership modes of companies in terms of transactions and argues that companies prefer to budget friendly strategies while investing abroad (Williamson, 1985; Anderson and Gatignon, 1986; Gatignon and Anderson, 1988, Hennart and Park 1993; Erramilli and Rao, 1993; Cho and Padmanabhan, 1995; Padmanabhan and Cho, 1996; Zhou et.al., 2004). Resource Dependency Theory, on the other hand, addresses these issues in terms of the resources and capabilities of a firm (Barney, 1991; Peng, 2001; Barney et.al., 2001). According to this theory, companies prefer the entry strategies that are suitable for keeping and enhancing their competitive advantage (Greenfield/WOS) (Anand and Delios, 2002; Barkema and Vermeulen, 1998; Ekeledo and Sivakumar, 2004) and if the reason of investing is to obtain a resource that gives competitive advantage companies prefer to entry strategy which is suitable for obtaining this resource with the limitation of the institutional structure of host country (Meyer et.al., 2009). Finally, in his Eclectic Approach, Dunning (1988, 1993) argues that these theories would be integrated by accepting that ownership advantages would be assessed as resource dependency theory, location advantages would be assessed as institutional theory and internalization advantages would be assessed as transaction cost theory. This Eclectic Approach is used in this study in terms of the interactions of three different approaches (Brouthers, Brouthers and Werner, 1996; 1999; Agarwal and Ramaswami,1992; Nakos and Brouthers, 2002; Tatoglu and Glaister,1998).

So far, it has been argued in the studies which analyze the entry modes of foreign companies to the developing host countries that multiple perspectives would be more effective than a single theory in order to explain the entry modes of these companies (Hoskisson, et.al. 2000; Wright et.al., 2005; Brouthers and Hennart, 2007; Meyer and Peng, 2005). In this study, entry strategies of Turkish companies to the Romania are explained and discussed in terms of these theories.

Keywords: *Emerging Economies, entry-mode, entry strategies, Turkish outward FDI*

THEORETICAL FRAMEWORK

When the principal findings of previous studies of the entry into business and its ownership are examined, it is seen that in JV ownership mode, investment firms take advantage of local partners establishing ties with valuable resources, minimizing the investment risks and overcoming the liability of foreignness by means of ensuring legality; and that, in WOS ownership mode, firms take advantage of ensuring full control of local activities and the benefit of administrative autonomy in overcoming the harmonization problems resulting from the partners' different abilities, interests and aims (Dikova and Witteloostuijn; 2007, pg.1015).

According to Cho and Padmanabhan, Japanese firms preferred acquisition of their local or foreign competitors rather than greenfield investment, despite its high cost, with the aim of reducing potential competition and blocking the possibility of competitors entering the market (Cho and Padmanabhan, 1995, pg.276).

A. Institutional Approach

In the studies carried out within the framework of the institutional theory, it has been shown that, at the early stages of transition into the market economy, foreign firms preferred to establish JVs with local firms rather than establishing wholly owned subsidiaries (WOS), due to the intense uncertainty seen at this stage and the weakness of the institutions supporting the market; however, at the last stage of transition into the market economy they preferred WOS, as there is less uncertainty and institutional support for the market becomes stronger (Peng, 2003, pg.286-290). It is claimed that the higher number of restrictions upon foreign investors in the host country affects their preference for JV (Cho and Padmanabhan, 1995, pg.266).

It has been determined that when the regulatory and normative constraints of the host country have a restrictive effect, investment firms prefer to establish JVs rather than WOS, in order to ensure legality within the institutional framework. It is claimed that the foreign firms prefer the most common ways of entry into market of competitors that have previously entered into the market (external mimicry) or their own, previously successful ways of entering a foreign market (internal mimicry); and their preferences, which aim to ensure legality through local or domestic partners, depend on the "legality" criteria (Yiu and Makino, 2002, pp.667-668; Scott, 1995 and, DiMaggio and Powel,1983).

However, Gatignon and Anderson (1988, pg.315) suggest that risks pertaining to the country generally include the political, legal, cultural and economic environment of the country in relation to the stability of commercial activities. They reported that risks may necessitate more flexibility and, thus, this may lead to the preference for administration styles with less control (JV). They found that, for countries with high risk, firms avoid establishing wholly owned subsidiaries. A similar finding was reported by Kim and Hwang (1992, pg.35), who determined that when the country risk is high, multi-national firms prefer (JV) entry mode with less resource commitment, in order to minimize potential losses by restricting the resource commitment in the country in question. In a study by Luo (2001), carried out in China, which has a developing economy, it was found that when the leaders of multinational firms perceive an uncertain environment and greater state intervention, firms prefer JVs.

In their studies on the preference for WOS or JV, Kogut and Singh (1988), Gatignon and Anderson (1988), Erramilli and Rao (1993), Meyer (2001), and Tsai and Cheng (2004) found that when the cultural remoteness between the host country and the country of the firm is greater, there is a greater preference for JV rather than WOS. Investment firms may need complementary information and experience in order to succeed in a culturally different (remote) country and, as mostly such complementary information is thought to be obtained from JV partners, they are expected to prefer JV rather than WOS (Padmanabhan and Cho, 1996, pg.49; Hennart and Larimo 1998, pg.534). However, Brouthers and Brouthers (2000) found no

meaningful connection between cultural remoteness and preference for an entry mode among Japanese firms investing in Western Europe.

In contrast, a study by Anıl, Cakir and Canel (2010) that compared the determinants of foreign direct investments in Turkey and Turkey's investments vice versa, found that when firms are fully aware of the similarities between the business styles and the local culture of the country in question, they prefer JVs. However, the study reveals no meaningful connection between the cultural similarity and the preference of entry mode (greenfield/acquisition).

B. Transaction Cost Approach

The keynote of this theory is that the determining factor for the preference of entry modes and ownership is the firm's organisation and administration structures minimizing the transaction costs (Zhao et al., 2004, pg.526). When the costs of protection against opportunist behaviour, performance monitoring and adaptation of production technologies are high, the firm would prefer an internal administration structure (WOS) (Luo, 2001, pg.445; Meyer and Peng,2005, pg.603; Williamson, 1985)

In most of the studies carried out in this field, it has been stated that if the firm's asset specificity is high, it is more likely to prefer JV rather than WOS (Gatignon and Anderson, 1988; Padmanabhan and Cho, 1996; Delios and Beamish, 1999; Makino and Neupert, 2000; Luo, 2001; Brouthers, 2002; Tsai and Cheng, 2004). Previous studies have generally found that, in order to protect the product specific to the asset against problems of opportunism and misuse, administration structures with higher control such as WOS are more appropriate. When technological deficits in the transition economies are taken into account, an R&D-intensive firm may prefer to have full control in order to protect its proprietary expertise and/or to use it optimally (Padmanabhan and Cho, 1996, pg.48). Padmanabhan and Cho (1996, pg.60) found that R&D-intensive Japanese firms generally prefer whole ownership (WOS) in their foreign investments. Moreover, Meyer (2001, pg.360) stated that, as the institutional structure cannot ensure effective protection of intellectual proprietary rights, the spread of information can be an important problem in transition economies and developing economies; thus, technology-intensive firms prefer to internalise (WOS) their transactions for goods and services necessitating advanced technology.

Some studies have found that asset specificity affects firms' greenfield and acquisition preferences. In a study by Hennart and Park (1993, pg.1068), in which they analysed the greenfield and acquisition preferences of Japanese firms investing in America, it was ascertained that R&D-intensive Japanese firms prefer to enter into business in America through greenfield investment. The authors suggested that this preference is possibly because firms perceive it as the most effective way of transferring their technological advantages to American shores. Cho and Padmanabhan (1995, pg.264-265) stated that this is in line with firms' strategy to transfer their implementation overseas and also their cost saving objectives.

Because uncertainty renders contracts ineffective and leads the partners to be exposed to delays, WOS is preferred (Brouthers and Hennart, 2007, pg. 403). In accordance with the model proposed by Williamson, when the asset specificity and country risk (foreign uncertainty) are both high, firms prefer entry modes with higher control (WOS) (Gatignon and Anderson, 1988; Anderson and Gatignon, 1986; Erramilli and Rao, 1993).

In studies related to transaction cost, it was reported that the firm's experience in the host country or in the international field affects the entry and ownership mode in the overseas market. Firms with greater host country or international experience are potentially better placed to undertake administration responsibility and risks pertaining to wholly owned foreign activities (Padmanabhan and Cho, 1996, pg.48). As the firm with greater international experience has less disadvantage concerning the local information, the firm may have less need for a local partner to overcome the liability of foreignness and thus, it may desire to have whole ownership (Dikova and Wittelloostuijn, 2007, pg.1016; Padmanabhan and Cho, 1999, pg.27; Gatignon and Anderson, 1988; Delios and Beamish, 1999; Tsai and Cheng, 2004).

Some studies found that the firm's international experience affects its preference for acquisition or greenfield entry. Increasing internalisation offers firms the opportunity to learn how to administer new departments and how to adapt its activities with the center (Larimo, 2003, pg.794). A firm with greater international experience can increase the acquisition risk and can unify the subsidiaries of different managerial nationalities. Therefore, when there is greater multinationalism, the firm will be better able to pursue acquisitions (Kogut and Singh, 1988, pg.420). Tsai and Cheng (2004, pg.20) analyzed the entry modes of Taiwan manufacturing firms into China, South East Asia and Western Europe; it was found that Taiwanese firms with greater experience with foreign firms prefer acquisition. Moreover, it has been stated that

experience/information specific to the host country assists the investment firm in determining and evaluating potential acquisition candidates and in negotiating with them (Larimo, 2003, pg.794)

However, Zejan (1990) tested the acquisition preference of less experienced firms and the greenfield preference of more experienced firms; and studies by Cho and Padmanabhan (1995), and Larimo (2003) revealed no meaningful relationship between experience and acquisition/Greenfield preferences. Anıl, Cakir and Canel (2010) found that previous firms' experience in the host country is not related to the preference for ownership mode or entry mode.

In contrast, in a study by Padmanabhan and Cho (1999, pg.37) that analyzed the importance of experience specific to the decision in multinational firms' preferences for overseas entry and ownership modes, important empirical evidence was found supporting the hypothesis that these firms have the tendency to choose ownership modes (JV/WOS) and entry modes (acquisition/greenfield) similar to the structures in which they are experienced.

C. Resource Based Approach

In a study by Meyer, Wright and Pruthi (2009, pg.558), resource based approach explained to be applied to the analysis of entry modes focusing on resource supplies of local firms, organisational learning, erosion potential of firms at the value of know-how, transfer of non-verbal information and the resource- utilization costs.

Brouthers and Hennart (2007, pg.404) reported that information based approach and resource based approach, which is claimed to include organisational abilities, help to develop the unique resources that the firms can use in foreign markets or benefit from the foreign markets as resources for obtaining and developing new resource-based advantages. The results of Hitt et.al. (2000) studies show that in selecting partners, firms from developing markets are more eager to share the financial assets, technical abilities, abstract assets and expertise of their partners; on the other hand, firms from developed markets emphasize the unique competence, market knowledge and access to the market of more than one partner. Moreover, firms from developed markets try to use their own resources in obtaining a competitive advantage by looking for partners with unique competence, local market knowledge and access to the market, but firms from developing markets look for partners from which they can learn organisational and technical abilities (Hitt et.al.,2000, 461-463).

By unifying the resource-based and institution-based approaches, Meyer et al. (2009, pg.62) analysed the strategies of foreign firms in entering developing economies. They stated that in a weaker institutional environment, JVs are used to provide access to many resources, but in an environment where the institutions are stronger and market activity is higher, acquisitions become more important in securing access to abstract resources and JVs have less importance.

When a firm enters into a foreign market, it will transfer its resources and abilities to the foreign operation. Therefore, it is necessary to chose the entry mode that will optimally transfer its resources and abilities from the home country to the host country without depreciating their values (Erramilli et al., 2002, pg.225-226). In accordance with the resource-based approach, when the resources can not be imitated or substituted, greenfield investment protects the resources and knowledge more than the acquisition of the present firm. Furthermore, greenfield investment enables effective knowledge transfer between the main firm and the subsidiary and also prevents the cultural and organisational adaptation problems than can emerge in relation to international acquisitions (Demirbag et al., 2008, pg.15).

Anand and Delios (1997, pg.582) stated then when there are no local partners and when it is necessary for the firm to obtain new resources such as local competence in order to overcome disadvantages specific to a challenging position, acquisitions may be the only acceptable way of entering into the foreign market. Anand and Delios (2002, pg.121-122) ascertained that the preference of the entry mode is shaped partially by the relative technological advantage of the host country and the home country of the investment firm. When the host country has the relative advantage, it is more likely that the foreign firm would prefer entry by acquisition. However, when the home country of the investment firm has the relative technological advantage, the firm would use the Greenfield method and therefore benefit overseas from this technological advantage. Barkema and Vermeulen (1998, pg.9) stated that firms with stronger technological competences have a strong preference for the greenfield mode for two reasons: Firstly, existing local firms have relatively little technological competence to present to firms with stronger technological competences; Secondly, if the acquiror has superior technological competences, transfer of these competences to the acquiree company may

be difficult or impossible because of the organizational inertia, i.e. the resistance of the workers within the acquired firm to the changes that would result from the acquisition process.

In the studies relating to the resource based view, the size of the firm is regarded as a sign of competitive advantage in terms of financial, physical, humane, technological or organisational resources (Ekeledo and Sivakumar, 2004, pg.78). It has been asserted that larger firms are better at absorbing the risks and costs relating to foreign direct investments and have greater advantage in balancing disadvantageous positions (Buckley and Casson, 1976; Terpstra and Yu, adapted from Kumar, 1984, 1988, pg.35). It has been stated that the larger the investment firm, the greater the acquisition competence of the firm (Kogut and Singh, 1988, pg.420; Chang and Rosenzweig, 2001, pg.756; Larimo 2003, pg.801.)

D. Eclectic Approach

Evaluating the firms' own ownership advantages, the advantages of the host country's position and the internalizing advantages of integrating the operations within the firm, Dunning's eclectic paradigm stipulates that firms would prefer the most appropriate method of entry into international markets. (Tatoglu and Glaister, 1998, pg.284).

Considered as factors peculiar to the country, the position advantages include the size of the market and the potential demand; similarities and differences in economic, legal, political and commercial policies; similarities and differences in the culture; similarities in market infrastructure and the usability of lower production costs (Brouthers et al., 1996, pg.379, adapted from Dunning, 1993).

There are various studies examining Dunning's OLI (Ownership, Location and Internalization advantages) factors and the firm's modes of foreign entry to the markets, such as Agarwal and Ramaswami (1992); Brouthers, Brouthers and Werner (1996); (1999); Tatoglu and Glaister (1998); Nakos and Brouthers (2002).

Agarwal and Ramaswami's study (1992, pg.20-21) is one of the most cited studies on this issue and is differentiated from others as it analyses the impact of mutual relations among the firm's property (ability to develop differentiated product, its magnitude and international experience), the firm's position (potential of the market and its investment risk) and the firm's internalizing advantages (risks regarding the contract) in the firm's preferred market entry modes (exportation, licensing, JV, WOS). The study determined that, since Joint Venture agreements reached with the firms of the host country provide an opportunity to share the complementary assets and abilities of the partner firm and also the opportunity to share the costs and risks, small firms with limited international experience prefer to enter markets with high potential through JV. On the other hand, it has been determined that larger firms with more international experience preferred WOS ownership mode, in order to expand to markets with lower potential and to realize their profit targets. In countries where the contractual risks (risks regarding the spread of information, deterioration in the quality of assets and services and the costs of preparation and implementation of the contract) of the firms with the ability to develop differentiated products are considered high, it has been determined that firms tended to prefer WOS due to the firms' anxiety to have potential losses in their advantages.

In the study (Tatoğlu and Glaister, 1998, 287) analysing the hypothesis that firms would prefer WOS instead of JV when the market potential, positive government policies, advantages of strategic position, relative importance of labour supply and infrastructure are greater; and would prefer JV when the relative importance of investment risk and industrial competition is greater; the authors found that only investment risk and industrial competition rate are related to the preference for ownership mode of Western firms investing in Turkey.

Anıl et al. (2006, pg.44-61) Examined 19 factors as position advantages peculiar to host countries in the investment preferences of firms from Turkey entering developing countries. They determined that, of these 19 factors, greenfield investment preferences were more influential than the growth rate of the economy, geographical proximity and level of unionization; and that, on the other hand, the competition level in industry was more important in the preference of WOS than in JV (Anıl, Cakir and Canel, 2010).

In previous studies, it has been claimed that several factors affected a firm's preferences in developing economies, as such economies are more unstable and uncertain than developed countries, and thus involve great risks for foreign firms that have entered the market. For this reason, it has been stated that reliance on only one theory or perspective would be inadequate to explain the preferences, and that various theories and perspectives would be more beneficial in this respect (Hoskisson et al., 2000; Luo, 2001; Wright et al., 2005; Meyer and Peng, 2005; Brouthers and Hennart, 2007). It has been stated that, in examining the preferences of firms entering into developing countries, institutional theory, transaction cost theory, resource-based

approach and Dunning's eclectic approach are mostly used; and that Dunning's approach can be used as a means to combine the other three theories, and thus a more explicative framework can be established (Brouthers and Hennart, 2007).

FINDINGS

Data relating to 7 Turkish firms investing in Romania has been collected through in-depth interview method. The obtained data was evaluated by means of the case study method and the findings are given below:

A- Findings related to Entry Modes:

Four out of the seven firms analysed entered the Romanian market through greenfield investment mode. The greenfield investments of Ulker, Pakmaya, Superlit and DYO were realized in 2002, 1994, 2006 and 2003, respectively. When the investment of DYO is considered as only the purchase of an empty building and a building plot, this may be regarded as an acquisition; however, when attention is given to the absence of a takeover of any manufacturing resources and knowledge, this should be regarded as a greenfield investment. Each of the four companies supports the arguments of Transaction Cost and Resource Dependency theories by preferring Greenfield with their strong research and development, ownership and internalization advantages.

The other three firms entered the Romanian market through acquisition. Kombassan entered into Romanian market in 1998, Arçelik in 2002 and Ereğli Iron and Steel Works Co. in 2002, by making investments through acquisition. Despite of their strong research and development, ownership and internalization advantages Arçelik and Ereğli companies preferred to enter Romania by using acquisition and this situation contradicts with the theory. If it is thought that Arçelik and Ereğli entered the market in order to prevent the possibility of one another company's buying option, it could be said that they behave like Japanese firms. Since Kombassan aims to use its financial power to buy cheap facilities in terms of privatization and using diversification strategies, this company needed to acquire and fill the lack of knowledge, skill and asset.

B- Findings related to Ownership Modes:

Five out of the seven firms analyzed realized investments through whole ownership. In the investment of Ereğli Iron and Steel Works Co, Arçelik and Pakmaya all the shares belong to the firm itself but Ulker (a co-partner, initially with a very small share with the German Investment Bank) and Kombassan (a co-partner with the labour unions, previously a share of 35%, and 9% now) left an unimportant share for their small partners. Administrative control lies entirely with Ulker and Kombassan. As regards the other two firms, although Superlit entered with a share of 40% with the Romanian single proprietorship, and DYO 50% with a Turkish paint marketer, today all the firms except Kombassan obtained whole ownership. Partner choice behavior of the companies that use JV do not support the relevant theory because while choosing their partners these companies do not consider reducing the amount of resource that put into risk, reducing the uncertainty or ensuring a resource that they need.

ARGUMENT

A- The Kombassan and Ereğli firms entered Romania as a result of their financial strategies. They invested in order to pursue speculative profits by using their current surplus resources in acquiring facilities that were operated in a cheap and inefficient manner. Entry modes including the diversification strategy implementation are not examined in the literature. Since the literature does not include such studies examining the behaviors of those firms, it is not possible to explain this peculiar situation within the current institutional frameworks.

B- According to the institutionalist approach, firms with strong resources should prefer greenfield entry modes and JV partnership modes in situations where the risk of the country is considered high. Until 2005, Romania was among the countries considered to be an investment risk by the global competition actors. None of the Turkish firms considered Romania as a risky country in which to invest. Within the literature it can be seen that foreign investors prefer the JV ownership mode, in order to reduce the risks. However, since the greenfield investment process for Superlit and all the clients of its products are public bodies, Turkish firms have preferred JV in order to facilitate cooperation with a former Senator and to thereby ease the bureaucratic procedures and to establish a network. Other findings -another argument of the institutionalist approach- indicating that firms perceiving a lack of cultural similarities may prefer JV, can also be helpful in explaining the behaviour of Kombassan. Though Kombassan does not have strong resources and assets regarding the manufactured product, according to the institutionalist approach, it can be

seen that, in order to diminish problems of compliance, Kombassan preferred JV rather than buying the small share owned by the labor unions. Kombassan preferred to employ Romanian Director-Generals, Deputy Director Generals and staff in order to overcome the compliance problem. It is known that the Romanian-Turkish business association plays an active role in creating networks, providing information and in lobbying activities.

C- According to the arguments of the Transaction Cost Approach, it has been foreseen that whole ownership and greenfield entry modes would be preferred when there is deterioration in the quality of the product and when it is perceived that there is a risk of spreading product information. The investment of the Erdemir firm confirms these arguments. However, as Erdemir aimed to diversify existing products with a different product, it preferred acquisition rather than greenfield. The JV ownership mode, preferred for entry by the DYO and Superlit firms, supports this claim. It has been stated that, in DYO, the problem was solved by JV partners having no share in the manufacturing process, but taking responsibility only for marketing activities; the Superlit firm indicated no risk of spreading product information or deterioration in the quality of the product, by giving responsibility to their partner for the marketing activities with the investment and public procurements and not including it in the manufacturing process. Ulker, which has a high level of technology intensity, R&D level, abstract assets and market power, confirmed the arguments of this theory by preferring the greenfield investment of DYO and Superlit firms; and, with regard to the whole ownership, only Ulker was confirmed and DYO and Superlit were not confirmed. It has been determined that the actions of firms perceiving the existence and high level of transaction costs do not affect the preference decisions, in contradiction to the arguments of the approach.

D- According to the arguments of the resource-based approach, it has been foreseen that firms that have high-level ownership advantages prefer whole ownership and greenfield investment. These arguments are confirmed by the fact that Ulker prefers greenfield and whole ownership by perceiving its full and high-level ownership of all the resources; that Superlit and DYO prefer greenfield when other resources belong to the firm itself and prefer JV when the partner has only the market information.

E- Dunning's Eclectic Approach states that whole ownership is preferred when there is a strong perception that the competition is low and the market is appealing. All the Turkish investment firms declared that the market is appealing and there is the opportunity to access close markets; and thus they preferred whole ownership structures. In the entry stage, the ownership modes of DYO and Superlit confirms the predictions of the approach. Important motivations included a qualified and cheap labour force, the advantage of being first to enter the market, the high probability of Romania becoming a member of the EU, and thus to be operate within the EU. It has been observed that perceptions regarding the host country and its positions, and preferences based on the market do not have an effect on investing companies' preferences for entry mode into overseas markets?

CONCLUSION

In this study, it has been analyzed that which entry (Greenfield/ acquisition) and ownership (JV/WOS) styles are used by one developing country's firms (Turkey) during the entrance process of one another developing country (Romania). By doing that various theoretical aspects, Institutional Theory, Transaction Cost Theory, Resource Dependency Theory and Dunning's Eclectic Approach (OLI) which covers first three theories and add them some other factors, has been used. Despite of the wideness of research that deal with the entrance styles of the developed countries' companies and their entrance process to the developing countries, there relatively are few research that deal with the entrance styles of developing countries' companies that enter to other developing countries. Thus, this study aims to contribute filling this gap.

In this study it has been found that none of the relevant theories could explain the entrance behavior of Turkish companies to Romania alone; but, each of them partly explains it. As a result, it could be said that Dunning's Eclectic Approach is more explanatory than other theories. One another finding of this study is that the behavior of the companies which invest to Romania in order to realize their finance or diversification strategies could not be explained by the existing theories. In addition, none of the relevant theories aims to explain the behavior of the companies that wants to enter international markets by investing different fields. By contrast with the arguments of the relevant theories, Turkish companies which have strong ownership and internationalization advantages prefer to use acquisition strategies. In addition, some other companies which have strong financial structure prefer to use JV strategies. All of them these findings contradict to the existing literature. Since the companies that developed without using hedge funds generally invest to fields that match their specialization, there is little research that deals with the entering international market by using diversification strategies.

Although Institutional Theory argues that in the countries where the uncertainty and cultural distance are high companies would choose JV, all of the Turkish companies that was analyzed in this study but two did not prefer to use this strategy. Moreover, these companies indicate that they did not care the transaction costs because the conditions were similar to Turkey. Finally, it has been found that Resource Dependency Theory has a capability to explain the behavior of these firms; but, even this theory could not shed light on some aspects.

When we assess the Dunning's Eclectic Approach's arguments in terms of advantages that are related with the country and company it could be said that following factors have an impact on the decision of the Turkish companies: having a factory in EU, taking the advantage of being first mover, entering international markets, buying a cheap facility in terms of privatization. Hence, in this study which tries to explain the entrance behavior of the companies from different sectors, sizes and from different entrance years, it has been found that Eclectic Approach is more exploratory than other theories. Because all of this conditions more or less have an impact on the decision of Turkish companies.

In this study it has been analyzed of the entrance behavior of companies from one single country (Turkey) to one another (Romania). In addition, only manufacturers have been analyzed but service companies have not been taken into consideration. The findings of this study are limited with the seven companies. All of these conditions are the limitations of this study.

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COOPETITION STRATEGY: THE INFLUENCE OF EXTERNAL WORKPLACE AND TECHNOLOGY FLEXIBILITIES

Angel Martínez-Sánchez
Silvia Abella-Garcés
Manuela Pérez-Pérez
María-José Vela-Jiménez

University of Zaragoza, Spain

ABSTRACT

This paper analyses the relationship between human resource flexibility and cooperation in a sample of Spanish manufacturing firms. Using data from a panel of 1,626 Spanish industrial firms in the period 2003-2006, the paper tests a model of research hypotheses and analyses the differences of firms characteristics and technological strategy among cooperation and non-cooperation firms.

Keywords: *Human Resources Flexibility; Innovation; Cooperation; Technological Cooperation. Technology Outsourcing.*

INTRODUCTION

Cooperation, the strategic phenomenon in which firms engage in simultaneous cooperation and competition with each other (Nalebuff and Brandenburger, 1996), is intriguing in theoretical as well as practical terms (Gnyawali et al., 2006). Although some scholars suggest that collaboration among rivals may inhibit competition by facilitating collusion or by shaping industry structure in anticompetitive ways, others suggest that firms derive valuable resources from other collaborative-competitive relationships and strengthen their competitive capabilities (Gnyawali and Madhavan, 2001).

The findings of existing studies on cooperation and innovation imply that relationships between competing firms include unique characteristics that are lacking in relationships between non-competitors, and that these characteristics might produce different results in terms of innovation. However, despite the growing relevance of the topic, the development of theoretical frameworks for innovation-related cooperation is still in an emergent phase (Ritala and Hurmelinna-Laukkanen, 2009). Our aim in this study is to address this gap, and to focus on the question of how innovation-related cooperation differs from non-cooperation in terms of some flexibility dimensions related to human resources and to the network process of accessing and deploying knowledge within the firm.

THEORY AND HYPOTHESES

According to the knowledge-based view, a firm gains a competitive advantage by exploring, exploiting, and integrating different specialized knowledge areas through internal R&D activities and external technology sources (Grant, 1996). Focusing on in-house R&D activities allows a firm to develop its core technological capabilities and experience higher economic returns while allowing for better control and tacit knowledge understanding embedded in the development process (Kessler et al., 2000). Alternatively, a firm should implement external technology sourcing to broaden its existing technological knowledge base, keep abreast of cutting-edge technologies, and remain flexible (Grant, 1996).

The existing literature addresses various modes of external technology acquisition. These modes include cooperative agreements, R&D outsourcing, inward technology licensing, and mergers and acquisitions. This paper focuses on R&D cooperation and outsourcing because they are more related to organizational

flexibility. First, firms can improve their technological innovation by collaborating with competent competitors (Tether, 2002). By sharing technological knowledge and skills, firms involved in this type of cooperative agreement may create a synergistic effect on new knowledge creation (Inkpen and Pien, 2006). A firm collaborating with its competitors may therefore gain better innovation performance than by working alone. Using this approach, firms can simultaneously accelerate their capability development and reduce technological innovation time and risk. Furthermore, collaboration provides a good opportunity to firms to measure their competitors' technological levels. Firms that are more knowledgeable about their competitors' technology strategies are better able to differentiate themselves from their competitors. Firms can also learn lessons from their competitors' technological innovation mistakes or problems.

Coopetition creates value through cooperation between competing organizations, aligning different interests toward a common objective and helping to create opportunities for competitive advantage by removing external obstacles and neutralizing threats. It implies that organizations can interact in rivalry due to conflicting interests and at the same time cooperate due to common interests. Firms that engage in coopetition ties find themselves gradually enmeshed in a network of crosscutting ties. Consistent with well-established network arguments, such firms derive several benefits from their coopetition network, such as easier and earlier access to a large volume of network resources, earlier knowledge of important developments in the industry, and ability to control information and resource flows in the network. The existence of simultaneous cooperative and competitive relations possesses a unique dynamic that is just beginning to be understood (Ketchen et al., 2004).

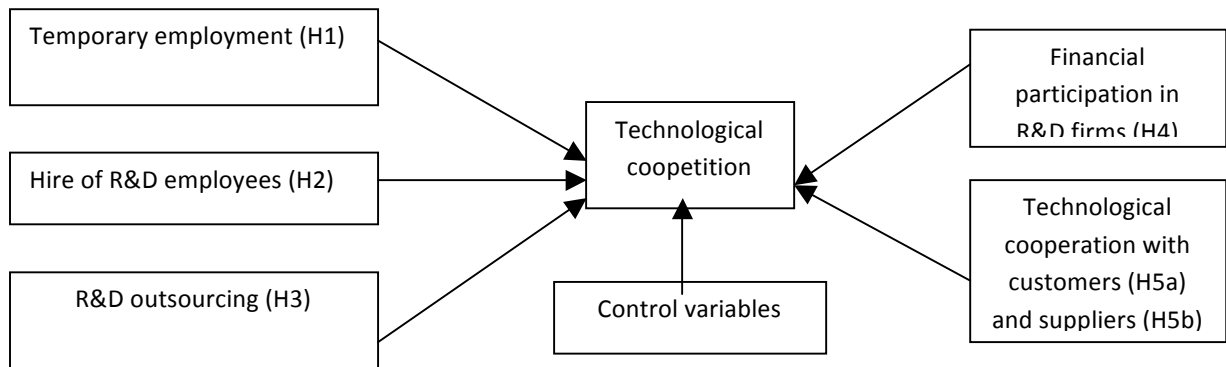
The most prominent theoretical and conceptual approach to coopetition and innovation includes arguments from game theory, the resource-based view (RBV) and capability theory, and transaction cost economics (see Lado et al., 1997; Quintana-García and Benavides-Velasco, 2004, for a thorough discussion on coopetition from these perspectives). According to these views, competitors are sometimes in a position to engage in positive-sum games that create value for all participants (the game-theoretic perspective). Further, competitors sometimes possess similar knowledge and a common market vision, which helps them to engage in such collaboration (the RBV perspective). Conversely, from the perspective of transaction cost economics coopetition is considered an extremely risky business because competitors have individual business incentives that might lead to opportunistic behaviour.

Regarding flexibility, the most frequent approach to analyse flexibility in organizations is the RBV and capability theory. Competitive behaviour depends not only on the firm's ability to exploit its resources but on exploring new not yet existing or at least fully realized dynamic capabilities (Rothaermel and Hess, 2007). Flexibility options have the potential to broaden the range of capabilities necessary to innovate. Wright and Snell (1998) define flexibility as a firm's ability to quickly reconfigure resources and activities in response to environmental demands. To attain the level of flexibility that customers value. This paper focuses on the influence of external workplace and technology flexibility on coopetition because this flexibility is more related to the firm's inter-organizational cooperation and to the process of accessing and deployment of knowledge in the firm that may influence more strongly the innovation process and the competitive behaviour of the firm.

Much of a firm's innovation now occurs in conjunction with other firms (competitors, customers & suppliers) rather than inside the firm because the increasing complexity of markets makes difficult for firms to have all of the resources necessary to innovate. Since developments in non-core knowledge areas have become very rapid, it is no longer feasible to keep up with all of these knowledge areas in as much detail as needed (Quinn, 2000). External sources of knowledge are sometimes the only option for firms that wish to keep up-to-date. Prior research suggests that the use of flexible employment contracts or outsourcing may be perfectly compatible with the achievement of innovation in dynamic and high-technology environments to ensure the presence of knowledge resources that may be beyond existing internal capabilities (Matusik and Hill, 1998; Nesheim, 2003).

Figure 1 depicts the research model. The next paragraphs develop the research hypotheses. We propose that several workplace flexibility practices are positively related to coopetition: temporary employment, hire of R&D employees, and R&D outsourcing. Two more technological flexibility dimensions are also proposed to be positively related to coopetition: financial participation in innovative firms, and technological cooperation with customers and suppliers. The purpose of this research is to contribute to develop theoretical frameworks for innovation-related coopetition. Recent studies find that flexibility dimensions are relevant to analyse the firm's competitive behaviour of firms in the innovation field (e.g., Martínez-Sánchez et al., 2009).

Figure 1. Research model



First, temporary employment is an external flexibility dimension that contributes to adjust the stock of employees and skills in a dynamic environment. Dynamic environments are characterized by variations in product demand but also in technologies and in customer preferences. When the firm's operating environment is highly dynamic, previously developed capabilities may not be able to keep up with the frequent changes in technological conditions. The misfit between a firm's existing capabilities and the firm's operational environment may be mitigated if the firm has flexibility to explore new areas and build new capabilities. The use of temporary employment opens new possibilities to firms that cooperate technologically with competitors. Training, recruitment, and hiring costs are lower for temporary than for permanent employees, and firms can manage capacity more efficiently (Kalleberg and Mardsen, 2005). On the other hand, firms may also develop flexibility capabilities by accessing, creating, and implementing 'new knowledge'. Therefore, the use of temporary employment in innovative activities may facilitate the competitive behaviour related to coopeitition.

Hypothesis 1. The percentage of temporary employment in the workforce is positively related to technological coopeitition.

Firms may also need access to relevant external knowledge through specialised R&D employees who bring knowledge of occupational and industry best practices into the firm. External knowledge may leverage the internal stock of knowledge to develop innovations in order to overcome greater environmental uncertainty. Nesheim (2003) and Nesheim et al. (2007) found that firms use external personnel and consulting firms in core value-creation areas to bring knowledge and industry 'best-practices' into the firm. Compared with others, firms that hire R&D experts are more likely to benefit from specialized knowledge that complements in-house expertise by acquiring, processing, and using diverse information and resources and in turn undertaking a wide range of competitive activities that favour coopeitition. Therefore, firms that incorporate R&D experts are in a better position to establish cooperative relationships with competitors because they are able to advance in new technological fields and complement the stock of knowledge of core employees in the coopeitition firms.

Hypothesis 2. The use of external R&D employees is positively related to technological coopeitition.

The outsourcing of some innovative activities may also bring new knowledge and complement innovation capabilities of core employees in firms who cooperate technologically with competitors. When properly planned and executed, firms that outsource R&D reduce innovation process obstacles and maximize innovation and overall company performance (Gupta et al., 2009; Huang et al., 2009; Watanabe and Hur, 2004). In addition, R&D outsourcing can be treated as an external learning process and has direct implications regarding how effectively firms can apply existing knowledge from outside sources to produce innovation performance (Kessler et al., 2000). Mol et al. (2004) find that during periods of increased product innovation, firms intensify their global searching activity to obtain and combine knowledge from various specialised sources. Similarly, firms that conduct their own R&D and seek external knowledge related to their core competences can more effectively incorporate this external knowledge and use it to enhance the innovation needed in coopeitition (Bierly et al., 2009). Thus, we propose:

Hypothesis H3. The outsourcing of R&D activities is positively related to technological coopeitition.

Cooperative ties with competitors provide a firm with opportunities to learn about its partners and afford access to resources residing in the network. Gnyawali and Madhavan (2001) suggested that network resources are critical in shaping a firm's competitive behaviour. Firms with a superior position in their networks are likely to learn about competitive opportunities sooner and use that knowledge in planning and executing competitive actions. Structurally advantaged firms have more opportunities to learn about the capabilities of other firms in the network, have greater flexibility to take action based on such knowledge, and can draw key assets from the network with less difficulty. A source of superior advantages for firms in network relationships is the financial participation in R&D firms that develop technological innovations. This access to external knowledge enables the firm to stay in a better position to cooperate with competitors because on-going R&D projects provide the edge to advance the technological fields that create value and new markets. Thus, we propose:

Hypothesis H4. The financial participation in firms that develop technological innovations is positively related to technological cooperation.

The empirical studies that have focused on the connection between different collaborative R&D partners and innovative performance provide evidence of the fact that competitors differ from other kinds of collaboration partners in innovation, and that cooperation between competitors contributes more to creating completely new products than cooperation between non-competing firms (Quintana-García and Benavides-Velasco, 2004; Tether, 2002). According to the game theory, cooperation is rational when cooperating with a competitor increases the size of the market so that there is more to allocate among the participants than there would be otherwise. With respect to innovation activities, this intuition seems to be particularly applicable. Creating new product and services or improving current ones in collaboration with competitors may increase the size of the current market or create completely new ones. This leaves the collaborating competitors better off than if they had not been collaborating.

Research suggests that the more competitive actions a firm undertakes or the more competitively aggressive the firm is, the more likely that it will increase market share and profitability, and improve its competitive advantage (Young et al., 1996). Thus, firms that cooperate technologically with customers and suppliers have broader learning opportunities as they are exposed to a large amount of information from diverse environments. Such firms may be more externally oriented and can take advantage of external resources more efficiently.

Suppliers usually have greater expertise and better knowledge of components and parts that are critical to a firm's technological development. Their expertise and different perspectives may make it easier for a firm to create new product development methods and to identify potential technical problems and increasingly difficult and costly design changes (Kessler and Chakrabarti, 1996). Collaborating with customers is also important because it helps to identify technology development market opportunities and reduces the likelihood of poor design in the early stages of development (Brockhoff, 2003). Consequently, firms that cooperate technologically with customers and suppliers are likely to possess the internal capabilities needed to use network resources more efficiently and effectively and therefore benefit more from cooperating with competitors and increasing the size of the market through cooperation.

Hypothesis H5a. Technological cooperation with customers is positively related to technological cooperation.

Hypothesis H5b. Technological cooperation with suppliers is positively related to technological cooperation.

METHODS

In order to test these hypotheses, we conducted an empirical study on Spanish industrial firms. We use the Survey of Business Strategies (SBS) questionnaire which contains a set of statements that permit the study of competitive behaviour for a great number of Spanish industrial firms. The SBS is an annual survey conducted by the SEPI Foundation in collaboration with the Spanish Ministry of Industry with the objective of knowing the evolution of the characteristics and strategies of Spanish industrial firms. This survey contains information about markets, customers, products, employment, technological activities and economic-financial data of the firms. The reference population comprises industrial firms operating in Spain and with more than 10 employees, with representativeness being one of its characteristics. We develop a database with panel data from 1,367 industrial firms in the period 2003-2006.

The research hypotheses were tested through logistic regression analysis. The dependent variable in the study is a dummy variable that indicates if the company cooperates technologically with competitors. The independent variables are:

- Four measures of external flexibility: the percentage of temporary employees in the workforce, the hire of employees with R&D experience (dummy), the outsourcing of R&D activities (dummy), and the financial participation in firms that are developing technological innovations (dummy).
- Two dummies of technological cooperation in the supply chain with customers and suppliers.

The regression analysis controls for: firm size (logarithm of sales) because firm size is widely accepted as a predictor of competitive behaviour (e.g., Miller and Chen, 1996); R&D effort (percentage of R&D employees in the workforce); firm's performance (return on sales) as previous performance is likely to influence competitive behaviour (Young et al., 1996); identity between firm ownership and control (dummy), and industry. Before the multivariate analysis, a comparative study was also carried out to study differences between cooperation and non-cooperation firms. Contingency analysis and means comparisons (t-test) are used in this descriptive study.

RESULTS

Cooperation is a marginal strategy among Spanish manufacturing firms. Only 2.63% of companies cooperated technologically with competitors in the period 2003-2006, whereas technological cooperation with suppliers (21.24%), customers (18.03%), and R&D centres (22.26%) is more widespread. Nevertheless, cooperation is positively associated to these other forms of technological cooperation. Table 1 indicates several contingency indicators between cooperation and technological cooperation with suppliers, customers and R&D centres. The results indicate that cooperation is positively associated to other forms of technological cooperation in the value added chain: firms that cooperate technologically with competitors also cooperate with suppliers (82.95%), customers (76.13%) and R&D centres (86.93%).

Table 1. Contingency indicators of association between cooperation and other forms of technological cooperation in the supply or value added chain

	Suppliers	Customers	R&D centres
Chi-square Pearson	411,345***	412,870***	436,769***
Continuity Correction	407,566***	408,843***	432,940***
Likelihood Ratio	316,941***	293,486***	346,516***
Phi Statistic	0.248***	0.248***	0.256***

+p<0.1 *p<0.05 **p<0.01 ***p<0.001

The percentage of cooperation firms increases in the sample of innovative firms. Considering only those firms (21% of total firms) that have developed at least 1 product innovation in the surveyed period, 6.23 per cent cooperated technologically with competitors. The percentage of cooperation firms is also higher (5.56%) in the sample of firms that have developed at least 1 process innovation in the surveyed period (27% of total firms). Similarly, the percentage of cooperation firms in the group of patenting firms (6.3% of total firms) is much higher (51%) than among non-cooperation firms. The contingency indicators for these sub-samples of firms also show that cooperation is positively associated to other types of technological cooperation and that cooperation with suppliers, customers and R&D centres is higher among cooperation firms and the differences are statistically significant (p<0.001). The percentages of cooperation firms that also cooperate with suppliers, customers and R&D centres are similar to the percentages in the total sample; for instance product innovative firms that cooperate technologically with competitors also cooperate with suppliers (79.5%), customers (75%) and R&D centres (90.9%).

Tables 2, 3 & 4 show mean differences (t-test) of several characteristics of the firm: organization (size, age, employment type,...), innovation inputs, and innovation outputs. Table 2 shows the differences of organizational variables. The statistically significant results indicate that cooperation firms are larger, older and more foreign-owned than non-cooperation firms (p<0.001). They are also highly dynamic and exporting firms and use more intensively their production capacity. Table 3a indicates that cooperation firms invest more resources in R&D activities and have a higher percentage of R&D employees than non-cooperation firms. These differences are also found for those firms with positive R&D inputs (Table 3b); however the difference between cooperation and non-cooperation firms is now significant for the percentage of equipment expenditures on sales: cooperation firms invest less intensively in equipment than non-cooperation firms. Regarding innovation outputs, Table 4a shows that cooperation firms are more innovative than non-

coopetition firms because they obtain more patents and product innovations; however Table 4b indicates that these differences are less statistically significant for those firms with positive R&D outputs, and even the number of product innovations is lower in coopetition than in non-coopetition firms.

Table 2. Mean differences (t-test) of several organizational variables between coopetition and non-coopetition firms

	Non-coopetition firms	Coopetition firms
Firm sales (thousand euros)	68,574	310,000***
Total employees	233	1,037***
Firm age	30.6	41.3***
Percentage of foreign capital	16.07	41.19***
ROA (return on assets - percentage)	8.51	8.97
Export intensity	18.87	34.50***
Capacity utilization	82.9	87.2***
Market dynamism	52.7	68.7***
Percentage of temporary employment	13.94	14.10
Percentage of agency workers	3.79	2.46
Percentage of full-time permanent contracts	80.01	84.23**
Percentage of part-time permanent contracts	2.02	1.11*

+p<0.1 *p<0.05 **p<0.01 ***p<0.001

Table 3a. Mean differences (t-test) of R&D inputs (all firms)

	Non-coopetition firms	Coopetition firms
Percentage of in-house R&D on sales	0.63	2.39***
Percentage of external R&D on sales	0.23	1.39***
Percentage of R&D employees	1.65	6.42***
Percentage of equipment expenditures on sales	0.9	0.65

Table 3b. Mean differences (t-test) of R&D inputs (only firms with positive R&D inputs)

	Non-coopetition firms	Coopetition firms
Percentage of in-house R&D on sales	2.18	2.58
Percentage of external R&D on sales	1.03	1.72*
Percentage of R&D employees	5.37	7.40**
Percentage of equipment expenditures on sales	4.05	1.59**

Table 4a. Mean differences (t-test) of R&D outputs (all firms)

	Non-coopetition firms	Coopetition firms
Number of product innovations	1.76	2.64+
Number of national patents granted	0.17	0.52***
Number of international patents granted	0.24	2.90***
Number of total patents granted	0.41	3.42***
Number of total patents/Number of product innovations	0.33	2.94***

Table 4b. Mean differences (t-test) of R&D outputs (only firms with positive R&D outputs)

	Non-coopetition firms	Coopetition firms
Number of product innovations	9.25	5.63**
Number of national patents granted	3.23	2.71
Number of international patents granted	7.29	20.40*
Number of total patents granted	6.98	14.68*
Number of total patents/Number of product innovations	2.07	10.13**

+p<0.1 *p<0.05 **p<0.01 ***p<0.001

Table 5 indicates contingency indicators of the association between coopetition and different types of product innovation. All types of product innovation are significant and positively associated to coopetition. However, only 50% of coopetition firms have developed product innovations in the surveyed period although this percentage is greater than among non-coopetition firms (20.3%). In the sample of coopetition firms that develop product innovations, the main type of product innovation is new design (79.76%), followed by new functions (61.9%), new components (55.8%) and new materials (50%). Table 6 shows that there are some

statistically significant differences of types of product innovation among product innovative firms, according to the type of external cooperation. There is a larger percentage of product innovative firms that use several types of product innovation among the group of cooperation firms (columns ‘Yes’ in table 6). Technological cooperation with customers introduces more statistically significant differences than other forms of external cooperation. Cooperation only produces significant differences for the type of product innovation based on new functions.

Table 5. Contingency indicators of association between cooperation and different types of product innovation

	New components	New design	New functions	New materials
Chi-square Pearson	91,908***	87,361***	98,794***	84,307***
Continuity Correction	73,597***	70,080***	75,213***	68,655***
Likelihood Ratio	89,090***	86,808***	98,701***	70,762***
Phi Statistic	0.117***	0.114***	0.122***	0.112***

+p<0.1 *p<0.05 **p<0.01 ***p<0.001

Table 6. Mean differences of percentage of product innovative firms according to the source of product innovation and the type of technological cooperation in the supply chain

	Cooperation		Customers		Suppliers		R&D Centres	
	No	Yes	No	Yes	No	Yes	No	Yes
New components	49	56	46	55***	44	55***	45	55***
New design	74	80	78	70**	74	74	77	71*
New functions	48	62*	40	60***	42	55***	42	55***
New materials	52	50	48	56**	48	56**	48	56**

Regarding the access to sources of external technology, Table 7 shows the contingency indicators of the association between cooperation and different sources of external technology. First, the financial participation in R&D firms that develop technological innovations is carried out by 28.4% of cooperation firms versus 4.8% of non-cooperation firms. Second, 23.86% of cooperation firms hire personnel with business R&D experience versus 4.88% of non-cooperation firms. Cooperation firms also hire more frequently personnel with public R&D experience (13.07% vs. 1.78%), and outsource R&D activities than non-cooperation firms (3.4% vs. 1.2%). The stronger positive associations are for the financial participation in R&D firms and the hire of R&D personnel. R&D outsourcing does not seem to be positively associated to cooperation.

Table 7. Contingency indicators of association between cooperation and access to external knowledge

	Financial participation in R&D firms	Personnel hired with private R&D experience	Personnel hired with public R&D experience	R&D outsourcing
Chi-square Pearson	185,261***	121,217***	107,270***	6,688*
Continuity Correction	180,706***	117,519***	101,796***	5,035*
Likelihood Ratio	100,190***	70,136***	51,113***	4,629*
Phi Statistic	0.166***	0.135***	0.127***	-0.032*

+p<0.1 *p<0.05 **p<0.01 ***p<0.001

Table 8 assesses the association between cooperation and the use of different flexible production technologies: Computer-Aided Design (CAD), Local Area Networks (LAN), Numerically Controlled Machine Tools (NCMT), Robots, and Flexible Manufacturing Systems (FMS). The percentage of cooperation firms that use these technologies is higher, and all the differences are statistically significant (p<0.001): CAD (68.75% vs. 37.92%), LAN (59.09% vs. 24.41%), NCMT (68.6% vs. 49.22%), Robots (58.52% vs. 27.82%), and FMS (54.54% vs. 24.51%).

Finally, Table 9 shows the results of the logistic regression that tests the hypotheses. The percentage of temporary employment is positively related to cooperation ($\beta = 1.331$; $p < 0.05$) which supports hypothesis H1; the hire of R&D employees is only marginally related to cooperation ($\beta = 0.395$; $p < 0.1$) which does not support hypothesis H2; R&D outsourcing is not related to cooperation ($\beta = -0.783$; $p > 0.1$) which does not support hypothesis H3; the financial participation in R&D firms is positively related to cooperation ($\beta = 0.537$; $p < 0.05$) which supports hypothesis H4; and the technological cooperation with customers ($\beta = 1.097$; $p < 0.01$) and suppliers ($\beta = 1.507$; $p < 0.01$) are positively related to cooperation which supports hypotheses H5a & H5b.

Table 8. Contingency indicators of association between cooperation and flexible production technology

	CAD	LAN	NCMT	Robots	FMS
Chi-square Pearson	68,581***	108,937***	25,171***	78,997***	81,693***
Continuity Correction	67,289***	107,111***	24,401***	77,502***	80,112***
Likelihood Ratio	66,571***	92,451***	25,752***	70,101***	70,111***
Phi Statistic	0.102***	0.128***	0.062***	0.109***	0.111***

Table 9. Logistic regression of technological cooperation with competitors (panel data 2003-2006)

	Logit regression
<i>Control variables</i>	
Firm size	0.351*** (39.179)
R&D effort	5.857*** (32.197)
Firm's performance	-0.007 (0.212)
Identity ownership-control	-0.186 (0.558)
Industry	0.043* (5.734)
Year 2003	0.337 (1.958)
Year 2004	0.380 (2.545)
Year 2005	0.189 (0.664)
Temporary employment (H1)	1.331* (5.400)
Hire of R&D employees (H2)	0.395 ⁺ (3.545)
R&D outsourcing (H3)	-0.783 (2.682)
Financial participation in R&D firms (H4)	0.537* (6.594)
Technological cooperation with customers (H5a)	1.097*** (23.927)
Technological cooperation with suppliers (H5b)	1.507*** (35.217)
Model statistics	Chi-square = 494.15*** 2 Log likelihood = 1108.51 R ² Nagelkerke = 0.335

Wald statistics between parentheses +p<0.1 *p<0.05 **p<0.01 ***p<0.001

DISCUSSION AND CONCLUSIONS

Scholars suggest that cooperation is an intriguing phenomenon and deserves scholarly attention (Lado et al., 1997), and the managerial trend shows increased tendency to form cooperative ties with competitors and

network-based competition among firms. Yet, little empirical research has addressed the determinants of technological cooptation and its implications (Ketchen et al., 2004). By empirically examining how external workplace and technology flexibilities are related to technological cooptation, we believe that this study advances our understanding of cooptation and suggests several possibilities for future research and managerial practice.

Two points are noteworthy based on our theory and data. First, external workplace flexibility is positively related to cooptation. One direct implication is that firms that have access to external sources of knowledge are in a better position to cooperate with competitors because they may perceive less risk involved in knowledge access and deployment in the network relationship. Second, technological flexibility from networking in the supply chain is also positively related to cooptation. Then, firms able to access technological advances in new technology-based firms and cooperate with customers and suppliers are also better prepared to deal with the uncertainty of technological developments with competitors. Executives need to consider how the different components in the organisational structure interface with the external environment, and they also need to understand the implications of different flexible dimensions for competitive behaviour.

Our result that cooptation only produces significant differences for the type of product innovation based on new functions contributes to the literature that finds a lesser impact of cooptation on the degree of product innovation novelty. Some studies find that different types of partners (except competitors) affect this degree of product innovation novelty. For instance, Nieto and Santamaria (2007) reveal that competitor collaboration has a negative impact on the degree of innovation. Management analysts do not view competitor collaboration as an appropriate instrument to achieve more novel innovations due to lack of trust and the fear of helping a rival. However, Tsai and Wang (2009) suggest that, depending upon the firm's internal R&D investment, collaborating with competitors is a good choice for a firm's innovation performance. Firms with more efforts in internal R&D usually exhibit stronger absorptive capacity (Cohen and Levinthal, 1990), enabling them to better incorporate and use new knowledge from collaboration with competitors for their own ends.

This study is exploratory but opens new venues for research. We do not claim for causality in the flexibility-cooptation relationship. Longitudinal studies should provide directions for causality because some flexibility dimensions could be caused by cooptation. The study of moderator effects could also focus the analysis on the impact of other flexibility dimensions on cooptation.

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EFFECTIVE INTERNATIONAL EXPANSION STRATEGIES OF DEVELOPING COUNTRIES: TURKISH HOME APPLIANCE COMPANIES AND THE GLOBAL RECESSION

Tanses Gülsoy
Beykent University, Istanbul, Turkey

Özlem Özkanlı
Ankara University, Ankara, Turkey

Richard Lynch
Middlesex University, London, UK

ABSTRACT

Over the last twenty years, Turkey has significantly increased its international trade in manufactured products. It is possible that this has been built on the basis of its lower labour costs compared with those of developed countries and the willingness of both Turkish national companies and multinational enterprises (MNEs) to invest in Turkey. While the basic evidence of Turkish trade development is clear, there has been only limited research on the business logic behind such growth, the reasons for choosing particular forms of expansion and the outcomes of such strategies at the present time for Turkish companies.

In order to explore these issues, we have undertaken a preliminary study of the Turkish manufacture and export of home appliances companies. Our findings show that companies have largely focused on European markets. We have some preliminary evidence on the reasons for this. We will be investigating this in the next stage of our research. It is possible that our later research may provide some assistance both to individual companies and to Turkish national policy makers on future export development. However, our primary purpose will be to shed further light on the content and process by which developing countries pursue effective international expansion strategies.

Keywords: *Global strategy; Developing country strategy; Turkey export strategy; Turkish home appliances manufacture*

LITERATURE REVIEW AND RESEARCH FRAMEWORK

Although the literature in international business research is extensive and continues to grow (Werner, 2002), Axinn and Matthyssens (2002) have argued that most theories on international strategies focus on explaining the behaviour of large firms from developed countries. They do not provide the same insights into the behaviour of firms from developing nations in the international market place. Given the emergence of companies from new international trading nations like India, China, and Turkey, the authors claim that it is imperative to look at new empirical evidence, rather than rely on existing theories of international trade. Equally, Buckley (2002) commented that the entry of developing countries as major players in the global

economy may give new impetus to such research. This is echoed by other scholars' calls for research into strategies for firms from emerging economies (Peng, 2005).

In view of the preliminary nature of the research developed in this paper, we have chosen to summarise the main strands of the literature in the table below. We make the assumption that readers will be broadly familiar with the relevant papers and focus on drawing out the main highlights.

Strategic issues	Some references
International business expansion	Dunning and Lundan 2008, Werner 2002; Axinn and Matthysens 2002; Buckley 2002, Johanson and Vahlne 1977
Global strategy and related issues in regional strategy	Levitt, 1983; Douglas and Wind, 1987; Ghoshal, 1987; Yip and Coundouriotis, 1993; Dunning 1993; Dunning 1995; Ghemawat and Ghadar, 2000; Ghemawat 2003; Rugman and Verbeke 2003a, Rugman and Verbeke 2003b
Turkish international strategy – including routes to development	Taylan and Aari 2008, Çakır, 2004, Karabati and Tan 2005
Strategic process	Reger and Huff, 1993; Pettigrew, 1992; Papadakis and Barwise, 1997; Chakravarthy and White, 2002 – who identify four routes
Entry and expansion strategies of MNEs	Dunning and Lundan 2008, Delios and Henisz 2003, Forsgren 2002, Bartlett and Ghoshal 1989, Doz et al 2001
Company resource management – international decisions and expansion	Doz, 1986; Ohmae, 1983; Doz and Prahalad, 1991; Barney, 1991; Peteraf, 1993; Murtha et al 1998; Grant, 2002; Lynch 2008

This research builds on a previous study undertaken on the Turkish television industry (Gülsoy et al., 2009). In that study we set out the trends for international expansion in that industry. This new paper builds on this earlier work with new data on Turkish home appliances. Importantly, we now add new empirical evidence on the reasons for the trends.

RESEARCH METHOD

At this early stage in our research, we have taken an eclectic approach to the gathering of data. We have been more concerned to see where the strands of information might lead us than to address specific hypotheses. Our approach has therefore been to examine the existing trade and company data in Turkey from an international development perspective.

In addition to undertaking a statistical analysis of the Turkish home appliances industry, we have also, on a historical basis, conducted four face-to-face interviews over a period of one year in order to gain a historical and in-depth perspective on the trends in the industry. They were also undertaken to develop an understanding of why various strategies were adopted. For reasons of confidentiality, we do not identify the individual managers and the senior industry representatives that we interviewed. However, we are confident

that the insights offered by these senior Turkish figures throw new light on the international development strategies of the Turkish domestic appliance industry.

Prior to the interviews, we identified the relevant senior executives and made appointments to see them. The four interviews each lasted one-and-a-half to two hours. Two interviews were tape-recorded, and two interviews were documented by written notes. For the tape-recorded interviews we hold the full evidence and have used this in the research material after presenting the industry data.

The main data sources have been developed under the guidance of the Turkish Statistics Institute (TÜİK 2010a, 2010b and 2010c), the Export Promotion Center of Turkey İGEME (Esen, 2009), the State Planning Organisation of Turkey DPT (Demir, 2001), and the Istanbul Chamber of Commerce (Çeşmecioglu, 2001).

We have drawn heavily on these sources in our initial examination of the issues. However, some of this data has been summarised in reports prepared by the Turkish government and other official organisations and may therefore be subject to the opinions of those tasked with drawing up reports on Turkish international performance. To ensure that our data is accurate and not subject to interpretation bias, we have used the raw data from the relevant Turkish government offices in the compilation of our research rather than rely solely on the finished reports.

In addition to the overall data, we have examined in depth the individual product areas. However, for reasons of space, we are not presenting that data in this paper. The researchers interested in those details may contact the authors for further information.

Initially we had some difficulty with the Turkish statistical data, but we have now resolved these problems. We are confident that our basic research information provides an adequate picture of the state of home appliances production and international trade up to 2008. However, we would caution that the international trade downturn in 2009 is only partially reflected in our data set. Nevertheless, three of our in-depth interviews were conducted in late 2009 and in 2010. Hence, we have some evidence on how companies have coped with the world economic recession.

In addition to Turkish government official statistics, we have used the business press and other reports to develop as full a picture as possible at this stage of the Turkish home appliances industry, its role and strategies in international trade development.

RESEARCH RESULTS

We present our research results in two parts. First, we outline the industry data, especially with regard to international expansion. Second, we present our interview evidence to explore in more depth the reasons for the trends in the industry. As part of this, we look in depth at Turkey's leading home appliances company Arçelik.

Section I. An Overview of the Home Appliances Industry in Turkey

Definition of terms

The term "home appliances," also referred to as "household appliances" or "domestic appliances," is commonly used to indicate electrical appliances used in the home such as refrigerators, washing machines, dishwashers, ovens, cookers, and small kitchen appliances. The Trade Statistics Branch of the United Nations includes under the category of "domestic appliances" refrigerators and freezers, dishwashers, washing machines, electric blankets, household sewing machines, vacuum cleaners, irons, small kitchen appliances, cookers and ovens, as well as water heaters and heating resistors. Sometimes the term "white goods" is used to refer to large household appliances such as refrigerators and washing machines that used to be typically finished in white enamel (Bonaglia and Goldstein, 2007: 8). The category commonly includes refrigerators, washing machines, dishwashers, ovens and cookers, and heating, cooling and air conditioning appliances. Sometimes white goods is considered a subcategory of home appliances which also includes small home appliances. Small home appliances are further divided into small kitchen appliances (such as toasters, blenders, coffee machines, etc.), personal care appliances (such as electrical shavers, hair dryers, electrical toothbrushes, etc.), and other small home appliances (such as vacuum cleaners, electrical irons, sewing machines, and floor waxing machines) (Özbek, 2001: 3).

Turkey's White Goods Industrialists Association (TÜRKBEŞD) monitors data on refrigerators, washing machines, dishwashers, and ovens and cookers while there is another association that is chiefly dedicated to small home appliances - (KESİD). In this paper the term "home appliances" will be used chiefly to indicate refrigerators, washing machines, dishwashers, and ovens and cookers.

Brief History of the Home Appliances Industry in Turkey

The Turkish home appliances industry has had its beginnings in the late 1950s. The first washing machine was produced in 1959 by Arçelik, using a Belgian license, and the first refrigerator was again produced by the same company in 1960, assembling the parts supplied by an Israeli company (Buğra, 2000: 71).

Until the 1980s the industry's development was arrested by a variety of factors: As Turkish industry was protected by import tariffs and quotas, there was little foreign competition to encourage growth, which was also hampered by dearth of qualified personnel, lack of high technology, and the low purchasing power of the consumer (Çeşmecioğlu, 2001: 6).

Following the introduction of a major stabilization program in January of 1980, aimed at curbing inflation, overcoming the scarcities that hindered production, and reducing the foreign trade deficit through the promotion of exports and trade liberalization (Aktan, 1997: 174), the industry entered a period of rapid growth and several foreign companies began investing in the Turkish market. It was during this period, for instance, that the German company BSH Bosch Siemens Hausgeräte was founded in the Turkish market, in 1992 (BSH plans new dishwasher plant," 2006), and again it was during this period, in 1994, that the Italian company Indesit established its first production plant here ("Indesit confident in Turkey," 2010). The entry of foreign competitors increased competition. In the mid-1980s the industry speeded up its efforts to modernize both its product range and its technologies (Özbek, 2001: 5). The end result was the availability of better quality product choices for the consumer (Çeşmecioğlu, 2001: 6).

Today the status reached by Turkey's home appliances industry belies its modest beginnings. Turkey is the world's fourth biggest exporter of home appliances (considering the four major categories of refrigerators, washing machines, dishwashers, and ovens and cookers). The country is considered to be a production center for BSH (BSH plans new dishwasher plant," 2006), and Indesit expresses an interest in turning Turkey into a base to serve the Balkans, the Middle East, Central Asia, and Africa ("Indesit confident in Turkey," 2010). Furthermore, Turkish manufacturers are held up as models for other companies from emerging economies to emulate. How has this miracle happened? This question has formed the starting point of this paper, the rest of which will be devoted to exploring the reasons behind. Just from the face of it, however, it appears that the reasons lie as much in some astute government initiatives as in clever business management.

Turkey's Place in the World Home Appliances Industry

In 2008 the world trade for the major household appliances of refrigerators, washing machines, ovens, and dishwashers occurred at around 40.7 billion dollars (Please see the table below). In the last four years world trade has grown by an average of 10.40%. The growth rate for 2008 is 2.38%. When vacuum cleaners, electrical smoothing irons, and electrical kitchen appliances are also included, the world trade for home appliances reaches 61.6 billion dollars, with growth occurring at an average of 11.9% over the last four years, and the 2008 growth rate occurring at 9.9% (Esen, 2009: 7), indicating that future trade growth may depend on small rather than large home appliances.

Table 1: World exports for major household appliances, 2004-2008

World Exports for Major Household Appliances, 2004-2008 (USD)					
	2004	2005	2006	2007	2008
Refrigerators	11.070.641.000	12.415.001.000	14.857.543.000	17.670.327.000	18.056.795.000
Washing machines	7.973.792.000	8.823.335.000	9.427.554.000	10.522.477.000	10.622.073.000
Dishwashers	2.486.525.000	2.665.246.000	2.983.973.000	3.499.471.000	3.913.835.000
Ovens and cookers	5.949.543.000	6.462.699.000	7.056.084.000	8.011.765.000	8.057.640.000
World total for four major home appliances	27.480.501.000	30.366.281.000	34.325.154.000	39.704.040.000	40.650.343.000
Source: Trade Map, 2010. Retrieved from www.trademap.org on Feb. 1, 2010.					

China has the largest share in world exports of the major household appliances with 20.49%, followed by Italy (11.76%) and Germany (10.94%). Turkey commands an important place in home appliances trade as the fourth biggest exporter, with a share of 5.63% in 2008 (Please see Table 2).

Table 2: Turkey's place in world exports of home appliances, 2004-2008

Turkey's place in world exports of home appliances*, 2004-2008 (Top 40 exporters)					
Unit: US Dollars.					
Exporters	Exported value in 2004 (\$)	Exported value in 2005 (\$)	Exported value in 2006 (\$)	Exported value in 2007 (\$)	Exported value in 2008 (\$)
'World	27.480.501.000	30.366.281.000	34.325.154.000	39.704.040.000	40.650.343.000
'China	3.492.745.000	4.937.505.000	6.173.356.000	7.565.804.000	8.327.406.000
'Italy	4.693.030.000	4.522.479.000	4.565.179.000	4.915.661.000	4.782.443.000
'Germany	3.413.344.000	3.710.339.000	3.984.352.000	4.467.242.000	4.447.628.000
'Turkey	1.169.025.000	1.415.787.000	1.778.112.000	2.203.577.000	2.289.049.000
'Mexico	985.249.000	708.072.000	1.675.799.000	1.632.245.000	2.228.166.000
'Thailand	1.286.771.000	1.526.639.000	1.791.273.000	1.940.778.000	2.098.403.000
'Republic of Korea	2.325.858.000	2.336.303.000	2.257.941.000	2.303.748.000	2.092.735.000
'Poland	782.261.000	1.025.496.000	1.328.608.000	1.791.621.000	1.950.293.000
'United States of America	1.248.588.000	1.413.348.000	1.586.772.000	1.738.996.000	1.576.831.000
'Spain	844.971.000	859.710.000	778.263.000	805.091.000	945.802.000
'Sweden	632.641.000	568.184.000	601.536.000	789.750.000	745.519.000
'Singapore	403.861.000	456.574.000	477.227.000	644.313.000	652.810.000
'Hungary	280.839.000	391.484.000	484.320.000	646.304.000	594.897.000
'Slovenia	413.789.000	426.997.000	463.357.000	571.828.000	549.210.000
'Slovakia	418.296.000	388.820.000	425.932.000	505.917.000	532.983.000
'Belarus	376.270.000	351.319.000	377.986.000	453.550.000	497.263.000
'France	535.740.000	470.183.000	455.114.000	522.658.000	466.008.000
'Brazil	417.220.000	450.173.000	468.083.000	491.525.000	449.256.000
'United Kingdom	390.049.000	424.623.000	434.770.000	466.935.000	401.061.000
'Czech Republic	174.216.000	242.706.000	303.300.000	404.366.000	381.431.000
'Netherlands	243.605.000	250.687.000	293.460.000	392.143.000	348.037.000
'Malaysia	283.741.000	304.405.000	331.314.000	332.074.000	331.801.000
'Austria	74.445.000	207.012.000	219.423.000	262.554.000	253.633.000
'Belgium	147.464.000	165.495.000	161.658.000	211.937.000	235.860.000
'United Arab Emirates	0	125.368.000	0	193.969.000	230.743.000
'Romania	82.850.000	108.610.000	158.849.000	192.818.000	202.688.000
'Colombia	72.586.000	97.245.000	108.173.000	181.430.000	193.165.000
'Japan	104.362.000	123.767.000	124.283.000	142.067.000	190.403.000
'Denmark	244.265.000	260.075.000	228.962.000	268.580.000	188.056.000
'Bulgaria	51.204.000	65.432.000	76.955.000	122.185.000	176.228.000
'Russian Federation	71.680.000	97.838.000	138.949.000	172.800.000	168.450.000
'Ukraine	101.195.000	129.223.000	154.161.000	172.497.000	166.427.000
'Finland	232.762.000	231.017.000	159.057.000	167.969.000	158.074.000
'India	40.419.000	56.882.000	75.152.000	81.156.000	149.784.000
'Portugal	93.245.000	69.100.000	97.317.000	121.900.000	128.861.000
'Ecuador	26.216.000	39.957.000	64.578.000	98.248.000	120.589.000
'Greece	122.494.000	135.209.000	150.010.000	129.458.000	118.302.000
'New Zealand	175.388.000	164.711.000	172.229.000	204.539.000	117.147.000
'Lithuania	104.341.000	109.093.000	103.857.000	116.720.000	102.639.000
'Canada	179.307.000	163.776.000	135.897.000	109.482.000	98.689.000
* The products included above are refrigerators, washing machines, dishwashers, and ovens and cookers. The following codes have been used in constructing the above table: Refrigerators - 8418.10, 8418.21, 8418.29, 8418.30, 8418.40; Washing machines - 8450.11, 8450.12, 8450.19; Dishwashers - 8422.11; Ovens and cookers - 7321.11, 7321.12, 7321.13, 7321.19, 8516.50.					
Note 1: Trade Map Sources : ITC calculations based on COMTRADE statistics.					
Note 2: The world aggregation represents the sum of reporting and non reporting countries.					
Source: Trade Map (2010). Retrieved from www.trademap.org on Feb. 1, 2010.					

For individual product categories, as of 2008 Turkey is the world's sixth biggest exporter of refrigerators (6.13%), fifth biggest exporter of washing machines (6.27%), fifth biggest exporter of dishwashers (6.75%), and seventh biggest exporter of ovens and cookers (3.2%).

Table 3: Turkey's place in world imports of home appliances, 2004-2008

Turkey's place in world imports of home appliances*, 2004-2008 (Top 40 importers)					
Unit : US Dollars					
Importers	Imported value in 2004	Imported value in 2005	Imported value in 2006	Imported value in 2007	Imported value in 2008
'World	25.771.049.000	29.440.212.000	33.418.934.000	39.857.051.000	40.157.594.000
'United States of America	4.099.815.000	4.957.198.000	6.797.498.000	7.287.474.000	6.368.507.000
'France	1.966.065.000	2.045.452.000	2.163.945.000	2.335.554.000	2.666.933.000
'Germany	1.776.763.000	1.910.037.000	2.166.474.000	2.319.434.000	2.545.825.000
'United Kingdom	1.946.674.000	2.159.155.000	2.137.725.000	2.496.101.000	2.332.604.000
'Russian Federation	914.400.000	1.197.375.000	1.264.914.000	1.622.970.000	1.761.286.000
'Japan	965.513.000	1.148.949.000	1.201.137.000	1.481.634.000	1.691.283.000
'Canada	989.431.000	1.137.897.000	1.298.396.000	1.458.085.000	1.428.327.000
'Italy	704.888.000	804.467.000	924.362.000	1.202.999.000	1.294.536.000
'Netherlands	815.397.000	887.518.000	948.944.000	1.144.813.000	1.094.666.000
'Spain	988.081.000	1.057.366.000	1.197.779.000	1.360.976.000	1.089.164.000
'Australia	638.562.000	628.774.000	727.609.000	853.905.000	920.243.000
'Sweden	550.042.000	579.075.000	632.559.000	897.480.000	877.595.000
'Belgium	538.835.000	556.520.000	583.825.000	692.083.000	778.582.000
'Poland	476.983.000	522.389.000	583.104.000	763.669.000	762.232.000
'Venezuela	133.229.000	247.340.000	312.667.000	0	571.084.000
'Ukraine	167.460.000	277.340.000	373.293.000	435.108.000	548.454.000
'Denmark	332.135.000	365.609.000	381.448.000	499.473.000	468.628.000
'Greece	300.239.000	310.944.000	316.060.000	395.001.000	425.754.000
'Iran (Islamic Republic of)	106.128.000	119.341.000	28.979.000	523.483.000	415.224.000
'Norway	259.300.000	290.846.000	322.780.000	392.247.000	412.935.000
'Austria	275.419.000	295.198.000	278.551.000	360.968.000	399.990.000
'Finland	351.433.000	378.830.000	328.555.000	361.253.000	380.168.000
'Romania	241.613.000	272.121.000	257.578.000	365.355.000	363.814.000
'Czech Republic	278.014.000	265.265.000	228.850.000	333.183.000	362.423.000
'Switzerland	240.905.000	270.535.000	289.455.000	331.105.000	360.082.000
'Portugal	282.725.000	287.430.000	293.820.000	338.637.000	356.708.000
'United Arab Emirates	0	174.079.000	0	239.735.000	344.909.000
'Ireland	209.753.000	218.298.000	267.340.000	317.734.000	272.790.000
'Turkey	140.194.000	143.288.000	203.698.000	213.247.000	271.203.000
'Saudi Arabia	201.839.000	259.200.000	238.087.000	260.907.000	270.388.000
*The following codes have been used in constructing the above table: Refrigerators – 8418.10, 8418.21, 8418.29, 8418.30, 8418.40; Washing machines – 8450.11, 8450.12, 8450.19; Dishwashers – 8422.11; Ovens and cookers - 7321.11, 7321.12, 7321.13, 7321.19, 8516.50.					
Note 1: Trade Map Sources : ITC calculations based on COMTRADE statistics.					
Note 2: The world aggregation represents the sum of reporting and non reporting countries.					
Source: Trade Map (2010). Retrieved from www.trademap.org on Feb. 1, 2010.					

In imports of the major household appliances of refrigerators, washing machines, dishwashers, and cookers and ovens, the US is the leading country (15.86%), followed by France (6.64%), Germany (6.34%), the UK (5.81%), and Russia (4.39%). Turkey's share in world imports of home appliances is less than 1% (0.68%), but it has grown on an average of 0.57% over the past five years.

Production and Sales

The first company in Turkey's home appliances industry – Arçelik – was established in 1955. In 1959 the first washing machine was assembly-manufactured, followed by the first refrigerator a year later (Özbek, 2001: 5). Until the 1980s only a few firms were operating in the industry, and product types and technologies were considered outdated (Özbek, 2001: 5).

Table 4: Home Appliances Production in Turkey, 1968-2008

Home Appliances Production in Turkey, 1968-2008								
	Refrigerators	Year-on-year growth	Washing machines	Year-on-year growth	Cookers and ovens	Year on year growth	Dishwashers*	Year-on-year growth
	(Units)	%	(Units)	%	(Units)	%	(Units)	%
1968	87.826		51.951					
1969	133.656	52,18	66.453	27,91				
1970	126.508	-5,35	60.009	-9,70				
1971	213.145	68,48	84.811	41,33				
1972	235.145	10,32	103.303	21,80				
1973	293.636	24,87	97.187	-5,92				
1974	332.379	13,19	130.992	34,78				
1975	409.618	23,24	163.322	24,68				
1976	548.872	34,00	206.969	26,72	465.735			
1977	285.915	-47,91	151.364	-26,87	422.961	-9,18		
1978	753.588	163,57	304.852	101,40	609.011	43,99		
1979	814.643	8,10	297.340	-2,46	632.791	3,90		
1980	629.049	-22,78	231.099	-22,28	476.821	-24,65		
1981	739.814	17,61	236.638	2,40	476.247	-0,12		
1982	580.491	-21,54	191.073	-19,26	337.724	-29,09		
1983	413.253	-28,81	231.455	21,13	367.444	8,80		
1984	500.669	21,15	223.511	-3,43	330.358	-10,09		
1985	487.767	-2,58	344.848	54,29	295.372	-10,59		
1986	658.641	35,03	643.461	86,59	394.388	33,52		
1987	884.193	34,25	698.426	8,54	475.897	20,67		
1988	862.681	-2,43	665.502	-4,71	646.892	35,93		
1989	815.876	-5,43	621.077	-6,68	696.957	7,74		
1990	986.574	20,92	743.957	19,78	931.191	33,61		
1991	1.019.627	3,35	836.986	12,50	942.757	1,24		
1992	1.040.127	2,01	801.661	-4,22	1.029.235	9,17		
1993	1.253.791	20,54	979.717	22,21	1.061.445	3,13		
1994	1.258.353	0,36	780.015	-20,38	1.088.273	2,53		
1995	1.662.835	32,14	865.747	10,99	2.103.009	93,24		
1996	1.655.956	-0,41	1.051.499	21,46	2.528.030	20,21		
1997	1.945.920	17,51	1.481.934	40,94	2.656.856	5,10		
1998	2.032.529	4,45	1.403.966	-5,26	2.391.573	-9,98	370.198	
1999	2.099.723	3,31	1.226.553	-12,64	2.335.436	-2,35	335.198	-9,45
2000	2.543.354	21,13	1.391.111	13,42	2.312.509	-0,98	373.318	11,37
2001	2.372.953	-6,70	1.022.120	-26,52	2.257.666	-2,37		
2002	3.164.922	33,37	1.684.687	64,82	3.029.356	34,18		
2003	4.123.501	30,29	2.470.644	46,65	3.584.216	18,32		
2004	4.863.762	17,95	4.057.729	64,24	4.527.759	26,32		
2005	5.303.394	9,04	4.433.810	9,27	5.560.558	22,81		
2006	6.383.255	20,36	5.410.212	22,02	6.473.001	16,41		
2007	6.281.707	-1,59	5.407.789	-0,04	6.970.746	7,69	1.832.608	
2008	5.640.634	-10,21	4.791.315	-11,40	7.688.018	10,29	2.139.610	16,75
2009**	5.348.523	-5,18	4.804.349	0,27	7.439.481	-3,23		

Source: TÜİK İstatistik Göstergeler 1923-2008.

* According to the legislation pertaining to data confidentiality, figures pertaining to dishwashers were not released for the years before 2007. The years 1998-2000 are from the Turkish Statistics Bureau as they were cited in 2001 (*Dünya*, 2001: 1) before the legislation went into effect.

** Source: TÜİK data file 2010c. 2009 figures are provisional.

Production figures for the four major household appliances – refrigerators, washing machines, ovens and cookers, and dishwashers – are given in Table 4 for the 42-year period between 1968 and 2009.

The production of the four major home appliances has shown a steady increase over the years with occasional contractions reflecting recessionary periods (for example, the years 1994, 2001, and 2009 are notable for considerable contraction of production).

The Market for Home Appliances in Turkey

Domestic market sales of home appliances may be considered a better indicator of national economic trends than production figures alone as the latter could be harboring export-slanted production.

Table 5: Home market sales of home appliances in Turkey, 2004-2009

Home market sales of home appliances in Turkey, 2004-2009								
	Refrigerators		Washing machines		Cookers and ovens		Dishwashers	
	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth
	(Units)	%	(Units)	%	(Units)	%	(Units)	%
2004	2.003.525		1.916.831		598.687		525.645	
2005	2.092.728	4,45	1.827.998	-4,63	636.581	6,33	631.827	20,20
2006	2.109.663	0,81	1.778.523	-2,71	726.408	14,11	838.722	32,75
2007	1.940.274	-8,03	1.575.269	-11,43	785.911	8,19	1.054.100	25,68
2008	1.906.573	-1,74	1.452.735	-7,78	699.858	-10,95	1.107.602	5,08
2009	1.615.262	-15,28	1.351.272	-6,98	605.116	-13,54	1.093.775	-1,25

** Only sales data from the members of the White Goods Industrialists Association of Turkey is included. Therefore, the data does not include importers or non-members of the association.

Source: White Goods Industrialists Association of Turkey, 2010.

Today there are around eight large manufacturers (Please see Table 6), nearly 100 small- and medium-sized manufacturers, and 15-20 importers operating in a largely oligopolistic market (Çeşmecioğlu, 2001: 7).

Table 6: Major manufacturers of home appliances in Turkey

Main Companies in Turkey's Home Appliances Industry	
Manufacturer	Brands
Arçelik	Arçelik, Beko, Altus
BSH	Bosch, Siemens, Profilo, Gaggenau
Indesit	Hotpoint Ariston, Indesit
Süsler-Candy	Hoover, Süsler, Candy
Türk Demirdöküm	Demirdöküm
Vestel	Vestel, Regal, Whirlpool

Source: White Goods Industrialists Association of Turkey, 2010.

Although not a member of the White Goods Industrialists Association of Turkey, two other manufacturers that should be included among the country's important manufacturers of home appliances are Kumtel, which manufactures mainly ovens, cookers, and heaters under the brand names of Kumtel and Luxell, and Auer, which manufactures ovens and cookers under its own brand name. In addition, there a myriad oven and cooker manufacturers mainly in the Kayseri and Ankara areas.

Home Appliances Exports

Turkey's exports in the four major categories of home appliances in 2008 accounted for 1.73% of Turkey's entire exports for that year in value. More than half of production is exported, and more than half of Turkey's total exports of home appliances are destined for European Union countries.

Table 7: Turkey exports of home appliances by country grouping, 2008

Turkey's Home Appliances* Exports by Country Grouping, 2008		
	US Dollars	Percentage in total exports (%)
OECD Countries	1.508.103.522	70,11
European Union 27 (EU 27)	1.464.935.771	68,10
European Union 25 (EU 25)	1.360.983.103	63,27
European Union 15 (EU 15)	1.230.274.880	57,19
G-8 (Group of 8)	978.225.841	45,48
Organization of the Black Sea Economic Cooperation	335.975.572	15,62
Organization of the Islamic Conference	302.263.506	14,05
Mediterranean Countries	236.764.292	11,01
Commonwealth of Independent States	203.110.891	9,44
Organization of the Petroleum Exporting Countries (OPEC)	163.704.670	7,61
Asia Pacific Economic Cooperation (APEC)	142.989.384	6,65
EU 10	130.708.223	6,08
Economic Cooperation Organization	103.311.548	4,80
Turkic Republics	60.737.698	2,82
Developing Countries (D-8)	53.680.107	2,50
African, Caribbean and Pacific Group of States (ACP)	46.740.797	2,17
NAFTA	43.856.831	2,04
EU Candidate Countries	28.839.238	1,34
Latin America	13.926.309	0,65
MERCOSUR	12.279.922	0,57
EFTA	8.927.845	0,42
South Asian Association for Regional Cooperation	5.365.493	0,25
Association of Southeast Asian Nations (ASEAN)	2.106.973	0,10
Total Home Appliances Exports for 2008: \$ 2.151.077.039		
* The home appliances included are refrigerators, washing machines, dishwashers, and ovens and cookers.		
Source: TÜİK Turkish Statistics Institute, 2010b.		

When examined by product group, top export markets appear to be again European Union countries. The main markets for Turkey's refrigerator exports are France, the UK, Germany, Italy, and Spain; the main markets for washing machines are Germany, Italy, France, the UK, and Spain; the main markets for ovens and cookers are the UK, the Russian Federation, France, Ukraine, and Germany; and the main markets for dishwashers are France, Spain, the UK, Italy, and Germany.

More than half of Turkey's refrigerator exports go to five countries: Germany, France, the UK, Italy, and Spain. The same holds true for washing machine exports and dishwasher exports. The only market diversity appears in the exports of ovens and cookers, where Russia and Azerbaijan join other European countries in the list of top export markets.

Home Appliances Imports

While Turkey has been running an unremitting trade deficit for decades, the category of white goods is one area where the trend is reversed. Turkey's white goods imports are a fraction of exports: For the year 2008, exports of the four major product groups (refrigerators, washing machines, dishwashers, and ovens and cookers) totaled \$2,151,077,039 for a mere \$199,683,020 in imports of the same items (TÜİK, 2010).

In the home appliances industry, imports mainly consist of raw materials and semi-manufactured goods which range anywhere from 10% to 70% of the finished good, and they are imported mostly from the EU countries (Çeşmecioğlu, 2001: 23). With the reduction of customs duties in 1989, home appliances imports have increased significantly, and some foreign companies and brands have thereby entered the Turkish market (Çeşmecioğlu, 2001: 23).

Again, the EU countries appear to be the main trade partner, but the Asia Pacific Economic Cooperation (APEC) countries also emerge as a significant source of imports. The share of APEC countries in 2008 is around 33% in Turkey's total white goods imports. South Korea, China, Thailand, and Mexico account for sizeable shares in the dollar value of imports of various product groups.

Table 8: Turkey's imports of home appliances by country grouping, 2008

Turkey's Home Appliances* Imports by Country Grouping, 2008		
	Imports (USD)	Share in total imports by value (%)
OECD Countries	157.704.129	78,98
European Union 27 (EU 27)	129.271.747	64,74
European Union 25 (EU 25)	127.266.654	63,73
European Union 15 (EU 15)	111.738.436	55,96
G-8 (Group of 8)	102.130.720	51,15
Asia Pacific Economic Cooperation (APEC)	66.274.655	33,19
EU 10	15.528.218	7,78
Association of Southeast Asian Nations (ASEAN)	10.213.029	5,11
Organization of the Black Sea Economic Cooperation	9.733.462	4,87
NAFTA	8.193.564	4,10
Latin America	7.714.321	3,86
MERCOSUR	3.085.225	1,55
Organization of the Islamic Conference	1.821.376	0,91
Developing Countries (D-8)	1.778.452	0,89
Mediterranean Countries	1.282.208	0,64
Commonwealth of Independent States	891.833	0,45
Turkic Republics	39.724	0,02
Economic Cooperation Organization	39.724	0,02
EFTA	13.102	0,01
South Asian Association for Regional Cooperation	2.570	0,00
Organization of the Petroleum Exporting Countries (OPEC)	1.276	0,00
African, Caribbean and Pacific Group of States (ACP)	890	0,00
EU Candidate Countries	410	0,00
Turkey's Total Home Appliances Imports for 2008: \$ 199.683.020		
* The home appliances included are refrigerators, washing machines, dishwashers, and ovens and cookers.		
Source: TÜİK Turkish Statistics Institute, 2010b.		

When examined by product group, nearly one-third of refrigerator imports in 2008 appear to have come from South Korea (29.27%), more than half of washing machine imports come from Italy (55.61%), and an overwhelming majority of ovens and cookers arrive from China (60.29%). In dishwasher imports Italy tops the list with 40.12%, followed by Germany with 33.44% in 2008.

The impact of the global recession in 2008-2009 can be seen in the reduction of Turkey's home appliances imports. From 2008 to 2009, imports in all major appliance categories imports have declined. Specifically, the total value of refrigerator imports have declined by 28.4%, washing machines by 30.1%, ovens and cookers by 38.8%. Only in dishwasher imports the decline in total value of imports has been negligible (1.8%).

Section II. International Expansion Strategies of Turkey's Home Appliances Manufacturers

Beginnings of International Expansion

Before the introduction of the 1980 stabilization program referred to in the "History" section at the beginning of this paper, the Turkish home appliances industry engaged in limited exportation. In 1980, for instance, Turkey's exports for refrigerators, washing machines, and dishwashers totalled 7 million dollars (TÜİK 2010), and the number of units exported accounted for a miniscule fraction of production. This is in sharp

contrast to the situation today where more than half of all production is exported, and exports of the four major categories of home appliances account for nearly 2% of Turkey's entire exports in value.

In the early 1980s the biggest export markets were Iran, Iraq, and Jordan (TÜİK, 2010b).

Following the establishment of the stabilization program, policies of export incentives helped the Turkish home appliances manufacturers take a big leap in their export-oriented efforts. Between 1985 and 1986, two years after the import regime had been liberalized, import value of home appliances for the four major product groups increased by 60% from 2.9 million dollars to 4.8 million dollars. Exports from 1985 to 1986, on the other hand, recorded an even more impressive increase, climbing from 3.5 million dollars to 8.6 million dollars – increasing by 148%. Within the three years between 1986 and 1988, to take another example, Turkey's home appliances exports for the four main product categories of refrigerators, washing machines, dishwashers, and ovens and cookers increased from 8.6 million dollars nearly fivefold to 41.8 million dollars (TÜİK, 2010b).

Table 9: Turkey's foreign trade in major household appliances, 1989-2009

Turkey's foreign trade in home appliances ^a , 1989-2009						
	Exports (Units)	Exports (USD)	Year-on- year export growth by value (%)	Imports (Units)	Imports (USD)	Year-on-year import growth by value (%)
1989	454.254	30.850.237		18.710	7.967.073	
1990	484.715	34.615.679	12,21	133.136	47.412.066	495,10
1991	643.641	49.120.291	41,90	206.602	59.982.738	26,51
1992	1.162.241	76.177.129	55,08	176.603	50.356.267	-16,05
1993	1.732.887	99.743.232	30,94	239.353	83.247.587	65,32
1994	1.838.765	128.524.767	28,86	154.198	50.699.624	-39,10
1995	2.324.178	195.904.946	52,43	215.002	61.986.651	22,26
1996	1.827.630	185.382.878	-5,37	508.794	141.894.044	128,91
1997	2.341.727	228.463.840	23,24	617.137	224.411.033	58,15
1998	2.668.929	250.493.253	9,64	964.174	261.100.157	16,35
1999	2.805.633	286.128.164	14,23	754.138	182.514.030	-30,10
2000	3.463.685	305.021.768	6,60	915.753	195.532.875	7,13
2001	4.153.120	372.760.843	22,21	523.651	87.292.782	-55,36
2002	6.091.529	605.558.239	62,45	462.394	70.056.286	-19,75
2003	8.327.252	970.805.390	60,32	523.819	93.805.090	33,90
2004	9.409.051	1.261.470.029	29,94	897.773	128.108.911	36,57
2005	10.738.311	1.484.944.611	17,72	963.503	128.724.597	0,48
2006	12.725.895	1.785.465.025	20,24	1.260.467	164.686.875	27,94
2007	13.163.592	1.993.267.958	11,64	1.467.269	165.245.764	0,34
2008	13.237.224	2.151.077.039	7,92	1.510.667	199.683.020	20,84
2009*	13.269.070	2.015.291.390	-6,31	1.025.247	151.700.213	-24,03

^aThe home appliance categories included are refrigerators, washing machines, dishwashers, and ovens and cookers.

* Figures for 2009 are provisional.

Source: TÜİK, 2010b.

In the 1990s exports continued to grow, but imports grew even faster. Early elections in 1995 led to an expansionary monetary and fiscal policy, which led to a steep climb in Turkey's imports (Serin, 2001: 310). The effects of this policy can be detected also in the imports of home appliances in Table 9 above.

The Customs Union that went into effect in 1996 signals an important turning point in Turkey's foreign trade. The removal of protective barriers meant that Turkish goods would now be exposed to foreign competition from import brands. In fact, the Customs Union could be considered a litmus test of a brand's competitiveness. One year before, a formidable competitor – Bosch Siemens Hausgeräte – bought Profilo, one of the two main competitors in the Turkish market of home appliances, increasing competition in the industry.

In 1996 and 1997, while Turkey fulfilled its obligations arising from the Customs Union, the European Union could not fulfill its own obligations for various reasons (Serin, 2001: 310). Other factors that unfavorably affected Turkey's exports in 1996 and 1997 were the economic recession in Europe and the war in former Yugoslavia, which very much hampered land transportation (Serin, 2001: 310), and these factors may have also contributed to the contraction in Turkey's home appliances exports in 1996 (Please see Table 9).

The Turkish home appliances industry continued to increase its exports with vigor throughout the 2000s. Between the years 2000-2008 export volume expanded seven-fold. Also notable from Table 9 is that in recessionary years or in their immediate aftermath Turkey's white goods manufacturers appear to have redoubled their efforts to sell to export markets – probably to compensate for the reduced home market sales (Please note the years 1995 and 2002, two years that immediately followed two recessionary years).

Although not much mentioned in accounts of the growth of Turkey's foreign trade, the impact of the modernization and standardization of the country's official airline, Turkish Airlines (Kaynak, 2001: 182), and the opening up of new flight routes to Turkey's trading partners and potential trading partners also needs to be underlined (Please see Kozlu, 2007: 95).

In 1980, for instance, the share of refrigerator production exported was a mere 5.5%. Less than 1% of the washing machines manufactured were exported that same year, and only two dishwashers were exported. (No export figures are available for ovens and cookers for 1980.) Protected by tariffs and customs duties, Turkey's manufacturers of home appliances appeared content to manufacture mainly for the home market, which, with its young population, continued to grow.

The majority of early home appliances exports were headed to the countries of the Middle East, Libya, Iraq, and the Turkish Republic of Northern Cyprus notable among them. In 1989, for instance, Iraq accounted for 33.91% of Turkey's washing machine exports by value and 17.73% of oven and cooker exports. More than one-third of refrigerator exports went to Libya that year, and 70.77% of dishwasher exports were bought by the Turkish Republic of Northern Cyprus.

Part of the reason for the choice of destination may have been logistics. Regarding refrigerators, the biggest export item in the home appliances category, noted an Arçelik executive: "As refrigerators are voluminous items, their transportation across long distances presented many insurmountable problems for us in those days," (Mamulattan Markaya, 2001: 315).

Another reason may have been the standards demanded in Western markets. "There was a more discriminating consumer in the West," explained another Arçelik executive (Mamulattan Markaya, 2001: 313), before adding that Arçelik managed to live up to this challenge also.

Government initiatives may also have played a part in the choice of export market at this stage. As recounted by an Arçelik executive, in the early 1980s exportation was an activity spearheaded by the government: "A delegation of 400 to 500 people, including mainly high-level government officials and bureaucrats and some businesspeople, would go to a country, for instance Iran or Iraq, and first would engage in a number of official meetings, and then under the supervision of a committee called the "mixed economic committee" a series of protocols would be signed that would stipulate that Turkey would sell to the country in question so many quantities of certain goods and would buy in turn so many quantities of certain other goods. What was interesting about this was that in this exportation effort, our competitors were not the countries of the Far East or other countries, but companies from our own country, and we would have to share the export agreement with that competitor," (Mamulattan Markaya, 2001: 313).

Yet another factor may have been "psychic distance," defined as "the factors preventing or disturbing firms learning about and understanding of a foreign environment" (Vahlne and Nordstrom, 1992: 3, as cited in Dunning and Lundan, 2008: 92). Hence, according to the model, firms in the early stages of internationalization would choose markets where the psychic distance would be smaller, but as their organizational learning and experience increased, they would increase resource commitment to foreign markets (Vahlne and Nordstrom, 1992: 3, as cited in Dunning and Lundan, 2008: 91).

With the fall of the Berlin Wall in 1990, the unification of East and West Germany, the increasing disintegration of the Soviet Union, and the regime changes in the former Eastern Bloc countries, demand for home appliances rose. Again, Turkish manufacturers appeared ready to take advantage of this opportunity.

Within the year between 1990 and 1991, Turkey's exports for the four major home appliances categories rose by 41.9% from 34.6 million dollars to 49.1 million dollars (TÜİK, 2010b).

Turkey's home appliances export boom continued unabated throughout the 1990s. In the ten-year period from 1990 through 1999 exports increased more than eight-fold in value, from 34.6 million dollars to 286 million dollars. This was all the more noteworthy considering that in 1996 Turkey had joined the Customs Union, which meant that Turkey's manufacturers were no longer protected against foreign competitors. In 1996 a considerable 39% of refrigerator production was exported. By 1999, 40% of the refrigerators manufactured in Turkey were being exported, in addition to 14% of the washing machines, 30% of the dishwashers, and 73% of the ovens and cookers.

Table 10: Home market sales of home appliances in Turkey, 1986-2009

Home market sales of home appliances in Turkey, 1986-2009								
	Refrigerators		Washing machines		Ovens		Dishwashers	
	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth	Home Market Sales**	Year-on-year growth
	(Units)	%	(Units)	%	(Units)	%	(Units)	%
1986	637.513		104.378		374.897		16.023	
1987	830.633	30,29	170.036	62,90	453.821	21,05	21.140	31,94
1988	728.162	-12,34	207.963	22,31	452.854	-0,21	25.603	21,11
1989	669.934	-8,00	243.068	16,88	456.021	0,70	33.775	31,92
1990	792.899	18,35	415.584	70,97	579.097	26,99	84.915	151,41
1991	848.656	7,03	616.276	48,29	551.853	-4,70	169.048	99,08
1992	796.715	-6,12	774.718	25,71	539.977	-2,15	211.425	25,07
1993	927.180	16,38	914.378	18,03	597.264	10,61	322.317	52,45
1994	767.267	-17,25	762.429	-16,62	403.407	-32,46	266.588	-17,29
1995	833.775	8,67	785.794	3,06	444.670	10,23	241.087	-9,57
1996	969.350	16,26	1.067.360	35,83	518.928	16,70	318.811	32,24
1997	1.230.743	26,97	1.464.279	37,19	607.629	17,09	426.804	33,87
1998	1.407.145	14,33	1.493.863	2,02	587.124	-3,37	477.597	11,90
1999	1.257.749	-10,62	1.222.201	-18,19	473.978	-19,27	405.528	-15,09
2000	1.467.539	16,68	1.416.528	15,90	535.794	13,04	502.534	23,92
2001	1.017.595	-30,66	795.304	-43,86	336.735	-37,15	264.795	-47,31
2002	1.088.035	6,92	823.925	3,60	339.399	0,79	281.864	6,45
2003	1.361.804	25,16	1.075.589	30,54	377.868	11,33	261.108	-7,36
2004	2.003.525	47,12	1.916.831	78,21	598.687	58,44	525.645	101,31
2005	2.092.728	4,45	1.827.998	-4,63	636.581	6,33	631.827	20,20
2006	2.109.663	0,81	1.778.523	-2,71	726.408	14,11	838.722	32,75
2007	1.940.274	-8,03	1.575.269	-11,43	785.911	8,19	1.054.100	25,68
2008	1.906.573	-1,74	1.452.735	-7,78	699.858	-10,95	1.107.602	5,08
2009	1.615.262	-15,28	1.351.272	-6,98	605.116	-13,54	1.093.775	-1,25

** Only sales data from the members of the White Goods Industrialists Association of Turkey is included. Therefore, the data does not include importers or non-members of the association.

Source: White Goods Industrialists Association of Turkey, 2010.

As can be seen from Table 10 which shows home market sales of the four major home appliances for the 24-year period between 1986 and 2009, the recessionary years in Turkey can be virtually handpicked from the growth figures (please note the years 1994, 1999 – the year of a devastating earthquake, 2001, and the year 2009).

Also important to note is that a big change had taken place in the 1990s. The top destinations for Turkey's home appliances were no longer the same as those of ten years ago. Now, the European Union topped the list of Turkey's export markets for home appliances. This development could partly be attributed to the crisis in Iraq that began in 1990 and later erupted into the Gulf War. Other reasons remained to be explored.

Research evidence on opportunities and challenges for the industry

In order to understand the trends outlined above, we conducted four research interviews. This section of our paper summarizes the evidence collected. In addition, we have, when appropriate, linked this evidence to previously published papers.

If export volume is any indicator of an industry's competitiveness, Turkey's home appliances industry could be called competitive. A report by Turkey's State Planning Organization in 2001 predicted that by 2006 the industry could reach an export potential exceeding two billion dollars (Demir, 2001: 107). The Turkish home appliances industry appears to have fulfilled this prediction: In 2007 exports of the four major home appliances (refrigerators, washing machines, dishwashers, and cookers and ovens) had exceeded two billion dollars (Trade Map, 2010). In fact, in all four of these product categories, Turkey is among the world's top five to ten exporters for the five-year period between 2004 and 2008.

The industry's main problem appears to be the fluctuations in home market demand. High taxes imposed on home appliances, lack of stringent controls, and unrecorded sales compound the problems in the home market (Çeşmecioğlu, 2001: 31). To combat fluctuations in home market demand, the industry has traditionally relied on promotions and extended payment plans, recently receiving government support in the form of temporary removal of the special consumption tax (ÖTV) levied on luxury goods (the tax removal was effective for three months from March 17 to June 15 of 2009). Exportation appears to be the main means of escaping the fluctuations in home demand. Among suggestions for improving home sales are increased attention on the training of sales personnel in product features and sales, relaxing product return policies for consumers and using the information gained thereby in product development (Demir, 2001: 109).

To increase their market shares abroad, manufacturers of home appliances are advised to harmonize production to European Union regulations and concentrate on developing environmentally friendly and energy-efficient products. One industry observer in the US remarks that while the number one reason people replace their home appliances is because the appliances no longer functioned properly, the number two reason is that people have made the decision to upgrade to energy-efficient appliances before their existing appliances have expired (Bulk, 2007, as cited in Gilliland et al., 2008: 5).

Also, manufacturers should aim for increasing economies of scale by increasing overseas sales. Finding ways of entering the US market is one of the main suggestions forwarded (Demir, 2001: 109).

Research evidence on Arçelik: How it managed to cope with the Turkish economic recessions of 2001 and 2009 by international expansion

Arçelik is the leading manufacturer in Turkey's home appliances market with over a 50% market share (Arçelik Annual Report, 2008: 26). In fact, the company's two main brands, Arçelik and Beko, have maintained a combined market share of around 50% for well over a decade (Ghemawat and Thomas, 2008: 1). In 2008 the company produced nearly 10 million units and had sales of 5.27 billion dollars, making it the leading firm in Turkey's consumer durables. Koç Holding, Turkey's largest conglomerate, owns 40.51% of Arçelik; Burla controls around 19.53%, other Koç companies hold another 16.69%, and the remaining 23.26% are publicly traded on the Istanbul Stock Exchange (Koç Holding Annual Report, 2009: 44).

Founded as Turkey's first home appliances manufacturer in 1955 and enjoying the largest share of the home appliances market in Turkey, Arçelik could perhaps be thought of as a company that did not need to expand beyond its home market. Apparently, so did Arçelik - until about the mid-1990s.

How has it then happened that this well-established Turkish company turned its eyes outward with vigor – so much so that today it is Europe's third largest manufacturer of home appliances (Koç Holding Annual Report, 2008: 25)? In fact, today the company has 11 production plants in four different countries, is active in 18 different countries, and offers its products and services to more than 100 countries (Arçelik Annual Report, 2009: 19, 37).

The answer may be a difficult one to disentangle. As with any complex issue, there are usually several factors at play that need to be uncovered.

In fact, exportation of Arçelik production began in 1967 (about 12 years after the company was founded). It could be said, however, that the company exported on an “opportunistic” basis. In the words of one Arçelik executive, the attitude towards exportation was “selling abroad what was left over after domestic demand was met” (Mamulattan Markaya, 2001: 309). The efforts appeared to be sporadic and mostly a reaction to government incentives. It is important to note, however, that the Group’s founder Mr. Vehbi Koç had recognized the importance of foreign trade even in the earliest days of the company.

In 1970 Mr. Koç instigated the establishment of a foreign trade company within the conglomerate: Ram Dış Ticaret. With the 1980 stabilization program and the concomitant export incentives, Ram became a very important company. In 1983, an export department was established within Arçelik. In 1988, this export department contracted to supply refrigerators on an OEM basis to Sears Roebuck for distribution in the Caribbean and Latin America under the Kenmore name (Root and Quelch, 1997: 8).

In the 1980s Arçelik licensed technology from GE and Bosch-Siemens that could be used for domestic production only. In 1997 the OEM contract in the US with Sears Roebuck in 1988 was followed by a much larger European deal with Whirlpool for dishwashers. As a condition of these deals, Arçelik committed not to sell similar products in Europe under own brands (Bonaglia and Goldstein, 2007: 22). In 1996, 50% of washing machine exports and 30% of refrigerators’ were under OEM contracts (Bonaglia and Goldstein, 2007: 22).

In 1994 there was a steep devaluation of the Turkish lira. To guard against future devaluations, Arçelik decided to open an industrial plant outside Turkey, and in 1998 the Tunisia plant was built, which would enable the company to avoid high customs duties (Çarkman, 2009: 126, 128).

The early export efforts were mainly targeting the countries of the Middle East.

One reason was the proximity of those markets, as noted in the previous section. Another was the standards required by West European markets that made it difficult for Arçelik to enter those markets (Mamulattan Markaya, 2001: 315).

But, in time Arçelik turned its eyes westward. We now use the evidence from our four research interviews, labeled A, B, C, and D [Full details are given at the end of the paper].

Respondent A listed the difficulties encountered in the markets of the Middle East and Africa as protectionist import regimes, transportation costs, some problems in banking transactions (such as the difficulties in opening letters of credit in some markets), and the necessity of training the after-sales personnel. Respondent C, in an interview conducted with him in January of 2010, pointed out that one of the reasons for moving away from the markets of the Middle East was the small size of the markets and the different type of products demanded. The Saudi Arabian market, for instance, noted Respondent C, demanded American-type side-by-side refrigerators and again American-type ovens.

The psychic distance, however, was probably smaller in the Middle East and Africa, and this may have helped Arçelik in increasing its market share. In an interview conducted in March of 2010, Respondent D noted that Turkish executives could easily adapt to the corporate culture in these countries because their way of conducting business was similar to that in Turkey. The company’s success in these markets may have helped it become a more seasoned exporter and thereby given the company a stronger position in Western markets.

A big part of the reason for taking on the European market was the existence there of a market with a higher purchasing power, noted Respondent B, and consequently, of larger profit margins (Çarkman, 2009).

Arçelik may have wanted to enter the European market also for political reasons. Europe’s attractiveness may lie in its political and economic stability compared to other parts of the world, its clear laws, and transparent administration (Çarkman, 2009: 140).

Consequently, exporting to the West European markets appears to have become an ideal, and its achievement was regarded a significant accomplishment. “What has carried us to a market share of 11% in as developed an economy as that of the UK is the quality concept at Arçelik and new technology investments,” remarked another Arçelik executive (Mamulattan Markaya, 2001: 308). Today, with a 15% market share, Arçelik holds

the number two position in the UK market, and in Romania, the company holds the leading position with 35% (based on information in the company's website, retrieved April 11, 2010, from www.arcelik.com.tr).

Arçelik entered the UK by opening its first sales office there in 1989. One of the factors that appeared to favor Arçelik in Europe was the change of regime in the former Soviet bloc countries. Before the fall of the Iron Curtain, the UK would purchase its table-top refrigerators from East European countries. Following the fall of the Curtain, prices of the table-top refrigerators increased and this gave Arçelik an opportunity to move in (Çarkman, 2009: 141). The change of regime may also have helped Arçelik to gain a foothold in Europe. The company entered these markets around the same time as big global players, noted Respondent D, indicating that low brand loyalty to global brands here may have helped Arçelik.

While in West European markets the distribution channel most often used for white goods is big chain stores, in the former Soviet bloc countries these chain stores were often nonexistent, and therefore Arçelik could easily capitalize on its decades-old experience of setting up and maintaining an exclusive distributor network. Respondent D pointed out that especially in some of the East European markets and in some of the Turkic Republics, Arçelik's home market experience of establishing a network of exclusive dealerships proved a competitive advantage. The strength of Arçelik's competitive advantage had formed the content of an earlier analysis (Buğra, 2000: 63-96).

While circumstances in Europe in the 1990s may have played in Arçelik's favor, company reports underline that Arçelik's ensuing success in these markets is actually predicated on the company's informed efforts to build its brands.

In preparation for the removal of import tariffs, Arçelik invested heavily in upgrading its manufacturing quality and productivity to world class standards. Between 1991 and 1996, capital expenditures totaled \$247 million, approximately 6% of sales (Root and Quelch, 1997: 4). By 1995 all Arçelik plants had received ISO 9001 quality certification. Through the incorporation of just-in-time and flexible manufacturing systems, the company reduced raw material and labor costs, thereby increasing productivity (Root and Quelch, 1997: 4).

According to Respondent D, the company's success in international markets today should be attributed to those important investments in the past, including investments in manufacturing quality, productivity, technology, and human resources. Also noted was the significance of Ram in Turkey's export efforts as well as in helping Arçelik gain a foothold in international markets; this was underlined by Respondent C, in an interview conducted with him in January of 2010.

Arçelik's investment in human resources and in technology development are credited with a big share in the achievements of today. Manufacturing under license brought with it contractual restrictions. "Even back in [the period 1980-1990] it was apparent what the features of a refrigerator or a washing machine had to be for it to have a competitive advantage internationally. The solution was obvious: to create our own technology and to make important investments in R&D towards that end," noted one company executive (Mamulattan Markaya, 2001: 282). To get around the restrictions accompanying licensed technology and to support its internationalization, in 1991, Arçelik established its R&D Center (Company reports). In the early 1990s the company invested in its technology and made it compatible with European standards. The company secured World Bank funding to research how to eliminate CFCs from refrigerators (Root and Quelch, 1997: 4). Between 1990 and 1995, \$69 million or 1.5% of sales was allocated to R&D (Root and Quelch, 1997: 4). One consequence was that Arçelik was the first white goods manufacturer in Turkey to completely eliminate the CFC in its refrigerator production long before the year 2006, which was stipulated by the Montreal Protocol for Turkey (Arçelik Annual Report, 2008: 69).

Another Arçelik executive explained: "When looking on [Arçelik's] international successes from the perspective of the year 2000, I believe Arçelik is ready to face global competition. ... Our investments in technology are at international levels. In short, in terms of both our 'hardware' (that is, our plants) and our 'software' (our human resources), we have all it takes to be a global brand," (Mamulattan Markaya: 301).

Investments in R&D have begun to produce positive returns. Over the last few years Arçelik has come up with innovative products built around environment friendliness. In 2008, for instance, the company produced the world's first A++ no-frost refrigerator with the lowest electric consumption in its class (Company reports).

In other words, the company has also relied on firm-specific advantages in its international expansion efforts.

The importance of the company's human resources in the results achieved was also underlined by Respondent D: "The serious investment in human resources in the 1980s and 1990s has paved the way for the company's achieving competitiveness in foreign trade." The work force is highly educated and many company managers have attended business schools in North America and Europe (Root and Quelch, 1997: 4).

The ability to develop its own technology and the experience it gained in foreign markets helped the company stand against the competition ensuing after Turkey joined the Customs Union in 1996, noted Respondent D.

In 1995, an important development occurred in Turkey's home appliances market. The German BSH (Bosch Siemens Hausgeräte) bought the Turkish company Profilo (based on the company's website, retrieved from www.profilo.com.tr on April 11, 2010) and thereby acquired Profilo's distribution network. It is testament to Arçelik's strength that it could stand up against such a formidable competitor, again remarked Respondent D.

Also important for Arçelik's expansion efforts were the two-pronged strategy of acquisitions and organic growth by investing in its brands.

Between 1998 and 2001 the firm was reorganized, and the five existing firms were brought together to form Arçelik A.Ş. In that period it was decided to export white goods and TV under the Beko brand since this was already known in major European markets. Arçelik decided to develop as an OBM in the UK and in France while continuing to operate as an OEM in Germany, and sales offices were opened in all such markets in the second half of the 1990s (Bonaglia and Goldstein, 2007: 22).

Despite these export efforts, Respondent D noted that even as recently as 1999, international sales accounted for only about 16% of the Arçelik's annual revenues. Interestingly, however, in 2008, international sales accounted for 52% of the company's annual revenues (based on the company's 2008 annual report).

The crunch appears to have come in 2001. The economic crisis in Turkey in February 2001, as well as the subsequent rise in unemployment, contributed to a 35% reduction in domestic demand for household appliances, and the company revised its strategy at that time: The key goal was to be international growth (Ghemawat and Thomas, 2008: 1).

The company's CEO at the time remarked that the company had then turned its attention to increasing exports and also to international acquisitions with the aim of "gaining an international identity as well as decreasing our high dependency on the volatile local market" (Ghemawat and Thomas, 2008: 1). Respondent D agreed that this was the turning point at which Arçelik realized that over-reliance on a single market was not a sustainable growth strategy.

Arçelik needed to increase sales to maintain economies of scale, and the devaluation in the Turkish lira had increased the company's existing price competitiveness in international markets (Ghemawat and Thomas, 2008: 1).

In 2004 Arçelik's holding company, Koç Group of Companies, announced in its annual report that for 2005 signs of contraction in the domestic market were noticed, and that the Group would try to compensate for this by its activities in foreign markets and by virtue of its competitive power. The goal was expressed as acquiring half of Group revenues from international sales (Koç Holding Annual Report 2004, p. 7).

In 2002 Arçelik bought the German home appliances company Blomberg, the Austrian home appliances company Elektra Bregenz and its brands Elektra Bregenz and Tirolia, the British home appliances brands Leisure (cookers) and Flavel (appliances and TV sets), and the Romanian refrigerator producer Arctic. Arçelik invested to modernize Arctic's operations and expand the product range, and made the subsidiary the largest production site for cool appliances for the EU market (Bonaglia and Goldstein, 2007: 23). In 2002 the company thus acquired four European brands, thereby increasing its revenues and market share in Europe.

In 2005 the company invested in Russia, where it initially produced laundry machines, then refrigerators and television sets. In 2007 this time Arçelik invested in China to produce laundry machines.

In 2009 the company achieved the highest profitability level in its history, which Respondent D claimed was due to careful cost analysis and astute management. As testament to the company's success, Arçelik managed to increase its market share in a contracting European market. In fact, in Europe sales increased by 15%, in Africa and the Middle East by 21% (Arçelik Annual Report 2009: 8). In Turkey the company also achieved significant results despite the recession. In addition to careful inventory management and using variable interest rates in its loan positions, the company has not refrained from marketing and technology investments, diversified its product range and achieved higher sales in bigger-ticket items (such as built-in kitchen appliances).

"Even when external circumstances offer some opportunities, you cannot take advantage of those opportunities unless you have the necessary groundwork," noted Respondent D.

International expansion appears to be ongoing. In 2009 the company realized revenues of 6.6 million Turkish liras (around 4.26 billion USD), 52% of the company's revenues came from international sales (Arçelik Annual Report, 2009: 9; Koç Holding Annual Report, 2009: 44). Even more importantly, however, is the fact that 80% of those international sales were for branded goods (Arçelik Annual Report, 2009: 9).

Arçelik appears to have used economic recessions as opportunities in disguise to build itself into a global player. With the results of the last recession in, the company appears to be poised to take advantage of other opportunities.

DISCUSSION AND CONCLUSION

In terms of the validity of the research evidence presented in this preliminary study, we are confident that it is statistically valid. Moreover, the data is longitudinal unlike immediate survey data and therefore presents a useful historical perspective on Turkish international development through the year 2009. We are also confident that we have been able to separate the factual evidence from the judgements of opinion formers in the industry.

This report essentially summarizes the current information on the Turkish home appliances industry. It identifies several important factors that have helped Turkish companies cope with the global recession. In addition, the evidence shows that one company – Arçelik – has succeeded in growing throughout this period. Our early evidence shows that there are five principal factors helping Turkish home appliance companies to cope with the global recession. They are investment in human resources, research and development, international acquisitions, and branding, coupled with some national government support. In addition, we note that background economic political factors (for example, the fall of the Berlin Wall) provided additional business opportunities.

In conclusion, this is only a preliminary examination of the Turkish home appliances market. The questions we will be exploring in further research will include the reasons why Turkish exports have mostly headed to the European Union within the context of international expansion strategies. What are the elements of cultural distance, administrative distance, economic distance, and in some instances, geographic distance, that will encourage Turkish manufacturers to expand more into other markets beyond the EU? Why have Turkish exporters chosen particular strategies to export their goods? The answers may have critical implications for Turkish exporters in a variety of markets. In the next stage of our research we are seeking a larger research sample of Turkish domestic appliance manufacturers to shed further light on these questions.

NOTE

The respondents to the four interviews conducted for this paper are indicated below with the following designations:

Respondent A: Senior executive from a leading company. The interview was conducted in April of 2009.

Respondent B: Senior executive from an industry body. The interview was conducted in December of 2009.

Respondent C: Senior executive from an industry body. The interview was conducted in January of 2010.

Respondent D: Senior executive from a leading company. The interview was conducted in March of 2010.

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RISK PERCEPTION OF TURKISH EXPORTERS IN TRANSPORTATION: AN EXAMPLE OF AEGEAN REGION

Aykan Candemir
Ege University, Turkey

Ali Erhan Zalluhoglu
Ege University, Turkey

Erdal Demiralay
HRM (Human Resources Management), Turkey

ABSTRACT

In international trade, various methods of payment, delivery and different currencies take place. To understand the various rights and responsibilities of the parties in international trade it is necessary to understand when title to goods passes under a contract of sale and in particular when risk in the goods passes. Rules for the interpretation of international commercial terms were developed with regard to the transportation of goods to describe rights and liabilities by the International Chamber of Commerce (ICC). The study aims to find out the risk perceptions of the Turkish exporters in the Aegean Region within the context of transportation function of logistic through incoterms. Also, scope of this study is to find out the utilization of risk minimization methods via insurance.

Key Words: *Exports, INCOTERMS, Transportation, Risk.*

INTRODUCTION

The global economy has given businesses broader access than ever before to markets all over the world. Goods are sold in more countries, in larger quantities and greater variety. But as the volume and complexity of international sales increase, so do the possibilities for misunderstanding and costly dispute when sales contracts are not adequately defined.

Globalization of markets through the developments in communication, technology and transportation forces international companies to change the ways they operate. Humphreys et al. (1998) stated that manufacturers are influenced to implement international sourcing decision mainly due to their desire to establish a presence in a foreign market, the introduction of competition to the domestic supply base, their needs to satisfy offset requirements and to increase the number of available sources, and their reactions to local and foreign competitors. Although there are advantages of global manufacturing and trade, there will be a huge flow of goods, therefore the successes of processes mainly necessitate implementing effective flow of goods which leads to the need of a well-functioning transportation and delivery system.

In international business transactions, different methods of payment, delivery and different currencies take place than in domestic transactions. In addition, while the terms of sale in international business often sound similar to those commonly used in domestic contracts, they often have different meanings in global transactions. Confusion over these terms can result in a lost sale or a financial loss on a sale. Thus, it is essential to comprehend what terms are agreed to before finalizing the contract.

To understand the various rights and responsibilities of the parties in international trade it is necessary to understand when *title* to goods passes under a contract of sale and in particular when *risk* in the goods passes. The law of sale is complex and to give a full explanation requires infinite detail besides necessitating a return to the basic rules of contract. The principal question that must be answered is: "At what moment does *risk* in the goods pass from the seller to the buyer or from the shipper to the consignee?" In other words, one is much more concerned with transfer of *risk* than transfer of *title* in respect to loss or damage to goods under a contract of carriage.

LOGISTICS, SUPPLY CHAIN MANAGEMENT AND RISK

Logistics is defined by Davies (1987) and Gary and Davies (1991) as composed of materials management, physical distribution management, credit rating, insurance and delivery promises. According to Houlihan (1987), the concept of international logistics can be expanded into international supply chain management by including purchasing, product distribution and sales.

Supply chain can be described as an integration of key business processes that are involved through upstream and downstream linkages in the key business processes from end user through original suppliers that sourcing raw materials and parts manufacturing and assembly warehousing and inventory tracking, order entry and order management, distribution across all channels, delivery to the customer, and the information systems necessary to monitor all of these activities that add value for customers and other stakeholders (Lambert and et al., 1998, Christopher, 1998; Lummes and Vokurka, 1999). Considering the globalization and the increasing volume of international trade, establishing a well-functioning system for international trade becomes inevitable.

Risk, in the context of supply chain management, is a multi-dimensional construct (Zsidisin *et al.*, 2003). According to Lambert and Cooper (2000) and Mentzer et al. (2001), supply chain management (SCM) is sharing both risks and rewards between the members of the supply chain. This is often mentioned, but not further elaborated on, in traditional SCM literature. The focus of supply chain risk management (SCRM) is to understand, and try to avoid, the devastating ripple effects that disasters or even minor business disruptions can have in a supply chain (Norrman and Jansson, 2004). Supply chain disruptions can result in a variety of problems such as long lead-times, stock-outs, inability to meet customer demand, and increases in costs (Levy, 1995; Svensson, 2000; Chopra and Sodhi, 2004). Risk management is a continual process that involves long-term dedication of all members. Ongoing risk assessment involves gathering, communication, and evaluation of information that helps in developing appropriate risk management strategies (Zsidisin et al., 2000).

A categorization for identifying risks and uncertainties in supply chains is shown as the five sub-chains/networks to every supply chain (Cavinato, 2004; Spekman and Davis, 2004; Norrman and Jansson, 2004; Barry, 2004).

- Physical – the actual movements and flows within and between firms, transportation, service mobilization, delivery movement, storage, and inventories.
- Financial – the flows of cash between organizations, incurrence of expenses, and use of investments for the entire chain/network, settlements, Accounts Receivable (A/R) and Accounts Payable (A/P) processes and systems.
- Informational – the processes and electronic systems, data movement triggers, access to key information, capture and use of data, enabling processes, market intelligence.
- Relational – the appropriate linkage between a supplier, the organization and its customers for maximum benefit; includes internal supply matter relationships throughout the organization.
- Innovational – the processes and linkages across the firm, its customers, suppliers, and resource parties for the purpose of discovering and bringing to market product, service, and process opportunities.

Market requirements also force firms to reconfigure their logistics activities. The increased pressure on time-to-market and order-to-delivery requires firms to be in close proximity to their customers, not necessarily in terms of physical distance, but in terms of time (Lemoine and Skoett-larsen, 2004). Logistics involves the movement of products (raw materials, parts, supplies, and finished goods) from point-of-origin to point-of-consumption. A product produced at one point has very little value to the prospective customer unless it is moved to the point where it will be consumed. Transportation achieves this movement. between facilities using vehicles and equipment such as trucks, tractors, trailers, crews, pallets, containers, cars and trains (Stock and Lambert, 2001; Ghiani et al, 2004). This function of transportation articulate its importance in international trade.

RISK WITHIN THE CONTEXT OF INTERNATIONAL TRANSPORTATION AND DELIVERY TERMS-INCOTERMS

By the 1920s, commercial traders had developed a set of trade terms to describe their rights and liabilities with regard to the transportation of goods. These trade terms consisted of short abbreviations for lengthy contract provisions, and therefore they were commonly used for convenience. Unfortunately, there was no uniform interpretation of them in all countries, and therefore misunderstandings often arose in cross-border transactions.

Gradually, two similar sets of terms and their definitions were developed— the American Standard Foreign Trade Definitions and the International Commercial Terms, better known as Incoterms (Weiss, 2008).

To improve this aspect of international trade, the International Chamber of Commerce (ICC) developed rules for the interpretation of international commercial terms. First published in 1936, these rules have been periodically revised to account for changing modes of transport and document delivery, and they have become popularly known as Incoterms (Shippey, 2008). Although the International Chamber of Commerce is not a governmental body, the terms are recognized worldwide as legally binding upon the parties to an international transaction (Wood et. al., 2002). They are periodically reviewed and updated by delegates selected from many countries in order to reflect current practice and changing technologies. The last revision was in the year 2000, and the publication is referred to as Incoterms 2000.

INCOTERMS 2000 clearly defines for the seller and the buyer (Petersen, 2004);

- When **RISK** Transfers?
- Who pays which **COSTS**?
- Who is **RESPONSIBLE** for forwarder & carrier selection?
- Who prepares the **DOCUMENTS**?

The terms do not regulate in particular (Zurich Global Corporate, 2005);

- Transfer of ownership,
- The payment process,
- Applicable law,
- The jurisdiction.

INCOTERMS are informally separated into four different groups (E, F, C and D), which increasingly shift the level of responsibility for transportation from the buyer to the seller. Under Group E, the seller is required to make the goods available at its own facilities to the buyer. Once the seller has done this, the buyer is then responsible for the shipment. The Group F terms require the seller to deliver the merchandise to the next carrier at the named facility, airport or port, where the buyer assumes responsibility for “main” or transnational carriage. Group C places the responsibility for main carriage on the seller, while under Group D the seller is responsible for transporting the goods to the country of importation and incurring risk to destination. These relative responsibilities divide the costs of arranging transportation, and in some cases insurance between the parties. It also divides the risk of loss between them. INCOTERMS are not shipping terms, instead they are part of the sales contract and help the seller and buyer define the roles and the costs that each will have in the transaction. Group E, F and C refers delivering at shipment at the place of loading country. The Risk caused from transportation period on the behalf of buyer. Group D refers delivering at unloading at the destination. The Risk caused from transportation period on the behalf of seller (ICC, 1999). Risk allocation of Incoterms are given below according to classified 4 groups as summarized and later detailed;

Delivery Terms: Ex-Works

“Ex Works (... named port of shipment)” means that the seller delivers when he places the goods at the disposal of the buyer at the seller’s premises or another named place (i.e. works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle. This term thus represents the minimum obligation for the seller, and the buyer has to bear all costs and risk involved in taking the goods from the seller’s premises (ICC, 1999). However, if the parties wish the seller to be responsible for the loading of the goods on departure and to bear the risk and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale. This term should not be used when the buyer cannot carry out the export formalities directly or indirectly (ICC, 1999).

Delivery Terms: FCA

“Free Carrier (... named port of shipment)” means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at the seller’s premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading. This term may be used irrespective of the mode of transport, including multimodal transport. (ICC, 1999). The seller must deliver the goods to the carrier or another person nominated by the buyer, or chosen by the seller, at the named place on the date or within the period agreed for delivery. Exporter is responsible of all risks until delivering the goods to truck including loading expenses and risks (ICC, 1999).

Delivery Terms: FAS

“Free Alongside Ship (... named port of shipment)” means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and Risks of loss of or damage to the goods from that moment. The FAS term requires the seller to clear the goods for export (ICC, 1999). Exporter carries all risks until delivering the goods alongside the ship nominated by buyer at the loading place named by the buyer at the named port of shipment on the date or within the agreed period and in the manner customary at the port risk crossing point. The risk starts at sellers’ factory/warehouses and ends until delivering at port at the alongside the ship (ICC, 1999).

Delivery Terms: FOB

Free on board (... named port of shipment) “Free on Board” means that the seller delivers when the goods pass the ship’s rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship’s rail, the FCA term should be used (ICC, 1999).

Delivery Terms: CFR

Cost and freight (... named port of destination) “Cost and Freight” means that the seller delivers when the goods pass the ship’s rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination, but the risks of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. The CFR term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship’s rail, the CPT term should be used (ICC, 1999). The risk starts at sellers’ factory/warehouses and ends after passing the ship’s rail at the named port of shipment.

Delivery Terms: CIF

Cost, insurance and freight (... named port of destination) “Cost, Insurance and Freight” means that the seller delivers when the goods pass the ship’s rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risks of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer’s risks of loss of or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements. (ICC, 1999).

Delivery Terms: CPT

Carriage paid to (... named place of destination) “Carriage Paid to...” means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any other costs occurring after the goods have been so delivered. If subsequent carriers are used for the carriage to the agreed destination, the risks passes when the goods have been delivered to the first carrier. The CPT term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport including multimodal transport (ICC, 1999). Exporter carries all risks until risk crossing point. Risk Crossing Point is delivering the goods to carrier nominated by seller. The main risks are: Any damage or losses until loading to main carrier such as: accident, theft, natural disasters (earthquake, torrent etc.), breaking etc.

Delivery Terms: CIP

Carriage and insurance paid to (... named place of destination) “Carriage and Insurance Paid to...” means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any additional costs occurring after the goods have been so delivered. However, in CIP the seller also has to procure insurance

against the buyer's risks of loss of or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. The CIP term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport including multimodal transport. (ICC, 1999)

Delivery Terms: DAF

Delivered at frontier (... named place) "Delivered at Frontier" means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. However, if the parties wish the seller to be responsible for the unloading of the goods from the arriving means of transport and to bear the risks and costs of unloading, this should be made clear by adding explicit wording to this effect in the contract of sale. This term may be used irrespective of the mode of transport when goods are to be delivered at a land frontier (ICC, 1999).

Delivery Terms: DES

Delivered ex ship (... named port of destination) "Delivered Ex Ship" means that the seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used. This term can be used only when the goods are to be delivered by sea or inland waterway or multimodal transport on a vessel in the port of destination (ICC, 1999).

Delivery Terms: DEQ

Delivered ex quay (... named port of destination) "Delivered Ex Quay" means that the seller delivers when the goods are placed at the disposal of the buyer not cleared for import on the quay (wharf) at the named port of destination. The seller has to bear costs and risks involved in bringing the goods to the named port of destination and discharging the goods on the quay (wharf). The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import (Incoterms, 1999).

Delivery Terms: DDU

Delivered duty unpaid (... named place of destination) "Delivered Duty Unpaid" means that the seller delivers the goods to the buyer, not cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear the costs and risks involved in bringing the goods thereto, other than, where applicable, any "duty" (which term includes the responsibility for and the risk of the carrying out of customs formalities, and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination. Such "duty" has to be borne by the buyer as well as any costs and Risk caused by his failure to clear the goods for import in time (ICC,1999).

Delivery Terms: DDP

Delivered duty paid (... named place of destination) "Delivered Duty Paid" means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods there including, where applicable, any "duty" (which term includes the responsibility for and the Risk of the carrying out of customs formalities and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination. While the Ex-Works term represents the minimum obligation for the seller, DDP represents the maximum obligation. This term should not be used if the seller is unable directly or indirectly to obtain the import licence. However, if the parties wish to exclude from the seller's obligations some of the costs payable upon import of the goods (such as value-added tax: VAT), this should be made

clear by adding explicit wording to this effect in the contract of sale. If the parties wish the buyer to bear all Risk and costs of the import, the DDU term should be used. (ICC, 1999)

Under the Institute Cargo Clauses drafted by the Institute of London Underwriters, insurance is available in “minimum cover” under Clause C, “medium cover” under Clause B and “most extended cover” under Clause A (ICC, 1999).

a) **Minimum Cover :** This insurance named Institute Cargo Clauses (FPA) on Institute Cargo Clauses (C) for sea transport, Truck Clauses for road transport, Railway Clauses for railway transport. This clause cover risk of loss of or damages to goods: **physical occurrences** such as hitting, bumping, burning, to be capsized, to go off the road, and **natural disaster** such as earthquake, torrent and **maritime average**, damages sustained by a ship or its cargo and unloading from ship.

b) **Maximum Cover:** This insurance named as Institute Cargo Clauses (All Risk) on Institute Cargo Clauses (A). This clause cover risk of loss of or damages to goods during carriage, loading and unloading excluding any defect comes from goods nature, main cause of being lateness. Other uncovered Risk are mentioned below.

c) **War, riots, civil commotion, strikes and other labor disturbances:** Below mentioned A and C clauses does not cover these risk. The side who is responsible to arrange the insurance, if wishes to cover these risk, additionally must inform the insurance company to cover these risk.

When Institute Cargo Clauses (All Risk) mentioned as maximum coverage the nine types of risks are excluded from this clause. These risk are:

- 1- Any loss of or damages to goods comes from insured side’s deliberated activities
- 2- Any loss of or damages to goods comes from goods nature, Corrosion, to get worn-out, Normal flow, weight and volume loss
- 3- Any loss of or damages to goods comes from being lateness
- 4- Inappropriate and Lack of packaging
- 5- Financial problems comes from carrier
- 6- Carriage vehicles’ inappropriate to carry the goods
- 7- Atom and Nuclear pollution
- 8- War
- 9- Riots, Civil commotions, strikes and other labor disturbances

These clauses may be extended for several activities including loading and unloading of cargo.

METHODOLOGY AND FINDINGS

In this research, the risk perceptions of the Turkish exporters in the Aegean Region within the context of transportation function of logistic through incoterms are examined. Also, scope of this study is to find out the utilization of risk minimization methods via insurance. The factors affecting the risk perception such as sector, size, foundation year, export experience etc. are analyzed. An e-mail survey was conducted to generate data to test the hypotheses. With its organized industrial zones and free zones, Aegean region is one of the important centers for manufacturing and trade of the Turkish economy. In Aegean region, The total number of exporters is 3775, but only 2889 firms registered their e-mail addresses as contact information was selected from the Aegean Exporter’s Union and other governmental institutions database system. The sample included businesses from a wide range of industrial sectors. A web based questionnaire were prepared and e-mailed as attached document to the firms and expected to be answered by the top managers, export managers and export specialists. Two weeks after sending the e-mails, a follow-up e-mail was sent for non-responses. In total, out of 224 firms 19 were deemed ineligible (e.g. not properly filled) and 205 firms were taken for analysis. Company policies restricting the giving of information to external parties; and time constraints forms the main reasons for non-participation and non-response.

The questionnaire included three sections; The first section aimed to define Aegean exporters characteristics. Other sections include questions regarding exporters’ preferences of delivery terms for international transportation and how risky they perceive various types of delivery terms and the last section for the measure of which minimizing method of delivery risk mostly used.

NUTS classification used in the analyses was created by the European Office for Statistics (Eurostat) as a single hierarchical classification of spatial units used for statistical production across the European Union is used to determine for compare perceived risks of each terms between subregions. Sub sectors consisting the

exporters were gathered into three main sectors i.e. agriculture, industry and mining in accordance with the classification of Undersecretariat of Foreign Trade of The Republic of Turkey.

Table 1: Frequency Table

	Valid Frequency	Valid Percent (%)		Valid Frequency	Valid Percent (%)
Sector			Size of the Firm (classification according to number of employees)		
Agriculture	64	31,2	Small (1-49)	73	36
Industry	113	55,1	Medium (50-249)	87	42,8
Mining	28	13,7	Big (250 and over)	43	21,2
Total	205	100	Total	203	100
Type of Activity			Export Experience		
Producer and Exporter	166	81	Export Experience Between 1-9 Years	63	30,7
Only Exporter (No production)	39	19	Export Experience Between 10-19 Years	51	24,9
Total	205	100	Export Experience Between 20-29 Years	45	22
Year of Establishment			Export Experience 30 Years and More	46	22,4
1985 and before	65	31,7	Total	205	100
1986 – 1993	35	17,1	Capital Structure		
1994 – 2001	53	25,9	%100 Turkish	175	85,4
2002 and later	52	25,4	Foreign invested company (%1- %100)	30	14,6
Total	205	100	Total	205	100
Market orientation (Foundation of the Firm)			Location for NUTS		
Founded primarily for domestic market	90	43,9	TR31 Izmir and subregion	149	72,7
Founded primarily for export markets	63	30,7	TR32 Aydin and subregion	29	14,1
Founded both for domestic and foreign markets	52	25,4	TR33 Manisa and subregion	27	13,2
Total	205	100	Total	205	100
No. of Employed in Export Department			Export Sales /Total sales		
1	32	15,6	%0-%25	56	27,3
2	62	30,2	%26-%50	41	20
3	34	16,6	%51-%75	23	11,2
4 and over	61	29,8	%76-%100	85	41,5
Nobody work about export	16	7,8	Total	205	100
Total	205	100			

Perceived risk score of exporters was calculated by addition of all given points (Table 2). But to get more accurate solution the average risk point is calculated to compare the perceived risk of delivery terms. “Delivery duty paid” and also “Delivery ex quay” terms are found out to be the most risky options perceived by the exporters in Aegean Region. Therefore due to this calculation perception of “Ex-work” and “Free carrier (FCA)” are the teast risky ones. That is based on for the responsibility time of goods for the seller is for a short time.

Table 2. Perceived Risk Score of Delivery Terms

	N	Total Point	Mean		N	Total Point	Mean
Ex-Works	125	30	0,24	CIF	126	151	1,19
FCA	78	51	0,65	DAF	50	74	1,48
FAS	61	42	0,68	DDU	74	112	1,51
FOB	138	106	0,76	DES	48	73	1,52
CFR	87	95	1,09	DEQ	47	76	1,61
CPT	63	70	1,11	DDP	68	118	1,73
CIP	62	74	1,19				

As it seen from Table 3 that the most preferable delivery terms for the exporters are FOB (Free on board) and CIF (Cost, Freight and Insurance) in international trade. Perception of both FOB and CIF are average risky delivery terms. FOB is the most preferable term because of easy to use for exporters.

Table 3. Most Used Delivery Terms

	Frequency		Frequency
FOB	163	CPT	19
CIF	131	CIP	15
Ex-Works	94	DDP	8
CFR	52	FAS	6
FCA	41	DAF	5
DDU	35	DES or DEQ	-

As it seen in Table 4, each given points is between 1-3 (frequently used) and were added and then divided to total answer to find the average usage point of each risk minimization methods of delivery terms. As a result, exporters firstly prefer “Maximum Cover (A Clauses) Insurance” and secondly “loading clauses” to assess their delivery risk.

Table 4: Most frequently Used Risk Minimization Methods of Delivery Terms

	N	Total point	Mean
Maximum Cover (A Clauses) Insurance	146	332,00	2,27
Loading Clauses	115	210,00	1,82
Unloading Clauses	115	197,00	1,75
Additional Clauses (Strike, lockout, war and civil commotions)	115	187,00	1,62
Minimum Cover (C Clauses) Insurance	112	186,00	1,61

In order to be able to determine which criterias which is stated in Table 1 affects to exporters decision when evaluating perceived risks of exporters to the delivery terms, several Independent t-tests and one-way ANOVA tests were conducted.

Ho= There is no difference among the sectors for perceived risks of exporters to the delivery terms.

There is a difference within the groups of sector. Considering the CIP (Carriage, insurance paid to), the mean for agriculture sector was 2,39 and for the industry sector's mean was 2,06. Perishability of agriculture products may be the reason of why exporters of agricultural products tend to perceive higher risk.

Within 90% confidence interval, there are some differences between the groups. For the DEQ (Delivery Ex Quay) and DDP (Delivery duty paid) mining sector is different from the agriculture and industry sector. One way ANOVA test was applied to the groups of sector for the DEQ and the values of $F=3,499$, $df=2$ ve $p=0,039$ also when we analyze DDP again for the sector perception we get the values of $F=2,903$, $df=2$ ve $p=0,062$. Within these statistics, null hypothesis are rejected. The reason may be that the mining sector is based on natural resources and there is low risk for damage of goods and commodities. Perception of mining goods are less risky by exporters than both agricultural and industry products. Also when any exporter applying DDP and DEQ than the delivery cost will be higher with the taxes.

Ho= There is no difference among the export experience for perceived risks of exporters to the delivery terms.

Within 95% confidence interval, one way ANOVA test was conducted to the groups of export experience and for the values $F=5,079$, $df=3$ ve $p=0,002$, null hypothesis is rejected. For the CIF (Cost, insurance and freight), the differences between the groups early 1994 and after 1994. Perception of firms which export before 1994 are less risky than the firms started to export after 1994.

Ho= There is no difference between export experience and perceived risks of exporters to the delivery terms.

On the contrary to expectations the hypothesis could not be rejected so there is not enough evidence to conclude that there is a perception of risk difference.

Ho= There is no correlation between export sales/total sales of a firm and perceived risks of exporters to the delivery terms.

The hypothesis could not be rejected, therefore there is no statistical relationship between export sales/total sales and perceived risks of exporters to the delivery terms.

Ho= There is no difference among the exporters which have/have not export department for perceived risks of exporters to the delivery terms.

According to independent sample t-test, differences were found in perception of DDP (Delivery duty paid) which have export department and have not ($t=-3,466$, $df=58$, $sig=0,001$). From the analysis, it can be seen that the perception mean of exporters which have no export department is (3,00) and the exporters which have export departments is 2,69. The exporters which do not have export department perceive that the DDP is more risky. The reason may be that the DDP requires more bureaucracy.

Moreover when risk minimization methods are analyzed within the context of insurance;

Ho= There is no difference among the sectors for most used risk minimizing tools of exporters in delivery terms.

According to one way ANOVA test within 95% confidence interval, the values of $F=4,624$, $df=2$ ve $p=0,012$. There is a difference between groups, and null hypothesis is rejected. Considering the minimum cover insurance, the mean of agriculture sector perception 1,35, and the mean of industry sector perception is 1.79. In industry sector, usage frequency of minimum cover insurance is more than agriculture sector. Due to the perishability for agricultural goods, mostly “Maximum Cover (A Clauses) Insurance” is the first preference in this sector.

Ho= There is no difference among year of establishment for most used risk minimizing tools of exporters in delivery terms.

Although there is no difference between groups, there some some differences within the groups. Considering the “additional clauses”, exporters which established between 1986-1993 are different from the other exporters. Perception of the exporters which establish in this period mostly used additional clauses. The firms established during this turbulent period of Turkish history (strikes, lockout, economic crises and civil commotions) and the memories as well as the experiences of the past may be a force for additional clauses..

Ho= There is no difference among the exporters which have/have not export department for most used risk minimizing tools of exporters in delivery terms.

According to independent sample t-test, ($t=2,826$, $df=35,289$, $sig=0,008$). We reject the null hypothesis, therefore the firms which have export department use additional clauses more than the firms which have not.

CONCLUSION

Several factors affect the international trade activities of firms, and their perception and behaviour patterns. These may be the country and the sector to which the exporting firm belongs, the characteristics of the firm, its export level, size, organisational structure, human resources, international experience, export sales/total sales rate and nature of the products to be traded. Some factors such may be considered more important than commonly known factors such as export experience, age of the firms.

Today, risk is part of world environment and existing in obtaining these items, whether it is explicitly acknowledged and managed, investigated in a cursory manner, or ignored altogether. So, businesses have been always faced with various risks that emanate from the environment in which they operate (Zsidisin *et al.*, 2003; Giunipero and Eltantawy, 2003). Supply chain risk management taking both an academic’s and a practioner’s growing interest in view of the growth of the logistic needs. This study presents research which has investigated logistics risks from a transportation perspective in a framework of INCOTERMS.

SMEs constituting the 95% of the firms in Turkey, face several kinds of risks when considering the delivery terms in international trade. According to the findings of the study, delivery terms are decided together by the seller and the buyer. Ex-Works delivery term is perceived as the least risky by the firms. This may be due to the size of the firms (being small and medium sized) and to the management culture which avoids risks. The absence of an export department (%20 of the firms) leads to the preference of delivery terms requiring minimum bureaucracy. However, no difference between the firms are found for risk minimization choices. Only for industrial goods, for some type of goods minimum cover insurance are used.

The number of years in export experience of a firm is also found to have no relationship(s) with any risk perception of delivery term(s) anyway from the export experience the firms which started export after 1994 perceive the delivery terms(s) which include insurance more risky in international trade. From the aspect of export experience it can be said that delivery terms including the insurance is perceived as more risky when the costs are considered. After 1994, the diversification of export marketing activities and the increasing number of countries for export may have increased the delivery terms with high costs. Experienced firms do not perceive high cost delivery terms as risky regardless of the countries.

Differences in risk perceptions depending on the size of the firms and type of partnership couldn't be found. This may be due to the size of the firms (majority being SME) and the number of the firms with foreign partners (majority is Turkish owned). Perception of risk for delivery terms and risk minimization methods by the firms do not indicate significant results. It is found that the firms without export departments try to avoid "additional clauses".

The increasing volume of trade, diversification, geographic expansion and the changes in logistics services increases the importance of delivery terms. Besides these, the increasing utilization of risk minimization methods for delivery terms seems a good improvement however preference for simple forms of delivery terms for the exporters indicates the lack of information about the delivery terms and risk minimization methods. This study notes remarks the importance of continuous information flow and the necessity of awareness about the developments in foreign trade environment, domestic, international legislation and rules. The study also aims to make contributions for the literature about export marketing and international trade.

Well-formulated and integrated strategies in international purchasing, inventory management and logistics can provide fundamental mechanisms for managing the environmental uncertainty in global operations where success depends on configuration, control and coordination. International purchasing, inventory management and logistics strategies should go far beyond benefits derived solely from the difference in cost of production. They should, in addition, and most importantly, also help achieve improvements in product quality, value, customer satisfaction, responsiveness, flexibility and the competitive position of the firm.

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SELF-ASSESSMENT OF SEVERAL COMPANIES IN ORDER TO ESTABLISH A HOLDING

Imran Aslan

Orhan Çınar

The University of Erzincan, Turkey

ABSTRACT

This study presents a reorganization of a group, which is the main result of Strategic Management to turn to a holding from a company group. The reasons for restructuring can diverse but it is obvious that change comes after a structuring designing process a complex work requiring an extensive study. To reorganize the group, interviews and surveys were carried out to collect information and learn the problems of the group. A SWOT (Strengths-Weakness-Opportunities-Threats) analysis was done to bring out strategies which are used to prepare the new organization chart. Moreover, existing economic situation and future expectations of the group were taken into consideration. Because of the number enormous factors affecting design, there is no unique right design for the group but most important factor is human and human relations. This factor can change very dramatically for each organization. The duties and responsibilities of new structure were determined to avoid the vagueness of tasks. The current situation of the group shows how much the project has realized.

This proposed structure's cornerstone is human and relation. External factors are common for all textile and apparel sector. Thus, the offered organization structure can be a model for different size of companies with some revisions. The external analysis can be used to determine threats and opportunities of textile sector.

Keywords: *Change Management, Self Assessment, SWOT Analysis, Reorganization*

INTRODUCTION

The regulations in the world trade enhance the competitiveness of the Global Market and the national wide companies have been threatened by this wild competition whereas international companies have opportunity of accessing unexplored markets. These conditions oblige the national wide companies to develop new strategies for their sustainability in the market. However, companies must be aware of their internal and external environments to identify their pros and cons in order to develop strategies. Self assessment, which is a structured internal process to identify strengths and weakness for improvement is used by companies for years. (Higgins, J. M. and Vincze, J. W., 1991) The change is unavoidable to keep on competitiveness in today's global market. It is important to use right methods to collect data against resistance and misunderstandings. (McLean, G. N. P., 2006)

Kipaş Group founded 26 years ago when the Turkish textile and apparel sector initiated continuing progress by joint-venture of two families and now employs more than 4000 workers in different sectors. Kipaş Group, a leading institution within its sector and renown due to its professionalism, its expertise and its high quality standards, is a precious member of Turkish Textile Industry whereby it transformed a mere cotton yarn manufacturing plant over years into a fully-integrated textile manufacturing giant. The companies of the group which have benefited from incentives of Turkish Textile and apparel sector have been growing very rapidly.

Kipaş Group has been formalized by including numerous subsidiary companies through the reorganization of the group companies since 2005. Kipas Group decided to change their management structure considering the recent developments in textile sector and raising conflicts

among stakeholders due to the management system of the company. The removal of quotas and Chinese effects to world textile were the focus point of researches. The effects of removal of quotas to Turkish textile were assessed with the premature indicators of Turkey's total export and import. By taking account of enormity of the group and economical situation, the group was proposed to establish a holding. After the proposal was accepted, the project was started with a more extensive research. Their recent system and companies were initially examined by observations, surveys, and interviews.

The steps of project are shown below:

Step 1: Organization

- A team leader was appointed.
- CEOs and other organizational leaders affirmed the project team's suggestions.
- A timeline was developed for the entire project which was one year for the first part.
- Individual task force members from different companies of the Group took assignments.
- Trainings were prepared for the company about the strategic management to create a common language.

Step 2: Completing the Questionnaire

- The project team discussed what supplementary materials might support the information provided in the questionnaire and took responsibility for obtaining them.
- The Project Manager determined who was the best able to complete each section of questionnaire and took responsibility for its completion.

Step 3: Interviews

- The project team discussed findings from the questionnaire. Based on those results, the project manager determined what individual or group interviews should be conducted to explore further some issues identified in the questionnaire or to clarify areas that were ambiguous.
- The Project Manager decided who would complete each of the interviews. Interviews were mainly carried out by the whole team.

Step 4: Evaluations of Results

- The project team reviewed the data from the questionnaire, interviews and financial assessment.
- Drawing on the data and analyses, the team decided where the organization needs changes
- The strengths and weaknesses of company were found.
- Satisfaction analysis was performed to examine the results of questionnaires.

Step 5: Reports and Action

- Depending on the charge given the team in Step 1, the project team discussed findings with multiple audiences from top management of the group. These findings were often offered in a written report to the Assembly of Partners.
- In addition to a self-assessment of overall cultural competence, the report would likely include specific recommendations for actions to be taken, identifying who would be accountable for taking the actions. The results of this internal review would help the organization gain a broad perspective of its policies, programs and procedures.
- Combining the quantitative data acquired from questionnaires and financial assessment with qualitative data, results of observations and interviews to carry out the internal analysis of the firm.
- To perform an external analysis, the economical situation of Turkey and the World especially China and India was researched.

Step 6: Preparing Organization Chart and Organization Handbook

- Sectors that Kipas invested or had an intention of investment were examined by using the statistics, foresight and economic reports of textile and those sectors.
- External analysis of Kipas was completed with the results of researches.
- SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis of Kipas with most significant factors was prepared. In the light of these factors, new organization structure of Kipas was determined and presented to the owners of the company.

- Organization Handbook was prepared to determine duties and responsibilities of Top Management

STRATEGIC MANAGEMENT

Strategic Management is the process of assessing “what organization is” and deciding and implementing “what it intends to be and how it is going to get there.” It is used to determine the long-term activities of the organization. Many approaches and techniques are used for strategic management processes. It is not directed just a single functional area of group. All efforts are directed toward the mission and vision of the firm to find the best for the whole group. Multiple stakeholders are included in decision making. (Houben G., et al., 1999; Dincer O., 2004; Ketelhohn W., 2006) The Kipaş Group belongs to two families and both want to get more control over the group. The managers of firm cannot be successful if they focus on a single family. Many organizations can satisfy multiple shareholders’ needs. Strategic management requires including both short-term and long-term perspective. Both a vision for the future of the organization and a focus on its present operating needs must be taken into account. Moreover, the resources of the organization must be allocated wisely not just for a shareholder but for overall objectives of the group. (Gregory G., et al., 2005)

Deep changes occur in this era with unexpected results. (Diskien D., et al., 2008) Change management is a sub-set of ongoing strategic management. It is about modifying or transforming organizations in order to maintain or improve the effectiveness. (Higgins, J. M. et al., 1991; Hayes, J., 2007) The reorganization is driven by changes in the competitive environment on the global market. With the reorganization of the group, the group will react to the growing changes more quickly. (Albach, H., Wiedemann, H., 1986) The prerequisite condition for any effective change is that somebody in strategic position really feels the need for change. “Ready state” for needed changes means that the top management or enough people in the middle of the hierarchy think that the change is necessary. The reasons for strategic change in are mostly found in abrupt and predominantly extrinsic influences such as technological changes, economical changes. For large scale strategic change, the organization’s goals, the environment and the organization should be consistent with each other. (Sminia, H. and Van Nistelrooij A., 2006) Large and successful companies of Kipaş Group have operated very successfully for 26 years. All positions above the upper middle of the organization were restricted to some members of the families. Moreover, all policy decisions were made by a family board. Some members of the families strongly felt the need for changing from a family-owned, family-controlled organization to a family controlled, professionally-managed organization. (Beckhard R., 2007) The Dynamics of the Group must be changed due to changes in technology, the way of people living and working conditions. Moreover, national and international organizations have to reassess their position due to China and India’s effect on their strategic objectives. (Wirtenberg, J., et al., 2004) Organizational changes efforts and activities should be better understood in to avoid reactions among organization members. Changes are not able to be taken lightly. Some changes have no affect on losing the job. The content of organizational change can be expressed with impact of them on employees by explaining the purpose of change to gain acceptance from them. (Self, Dennis R. , et al., Mike, 2007) Each organization has a capability or ability initiating, managing and implementing large-scale changes in organization structure to improve organization ability for a quick adaptation, flexibility and innovation. There should be a trade-off between available assets of the firm and its continuous development requirements for firm-specific capabilities. (Yan, Y. , et al., 2009)

Management systems of the firm use internal and external information to gain a better strategically competitive position in the market by providing outstanding services and products. (Phelan, Steven E., 2005) Organizations determine their strategies based on external and internal data to penetrate the market as shown in Figure 1.

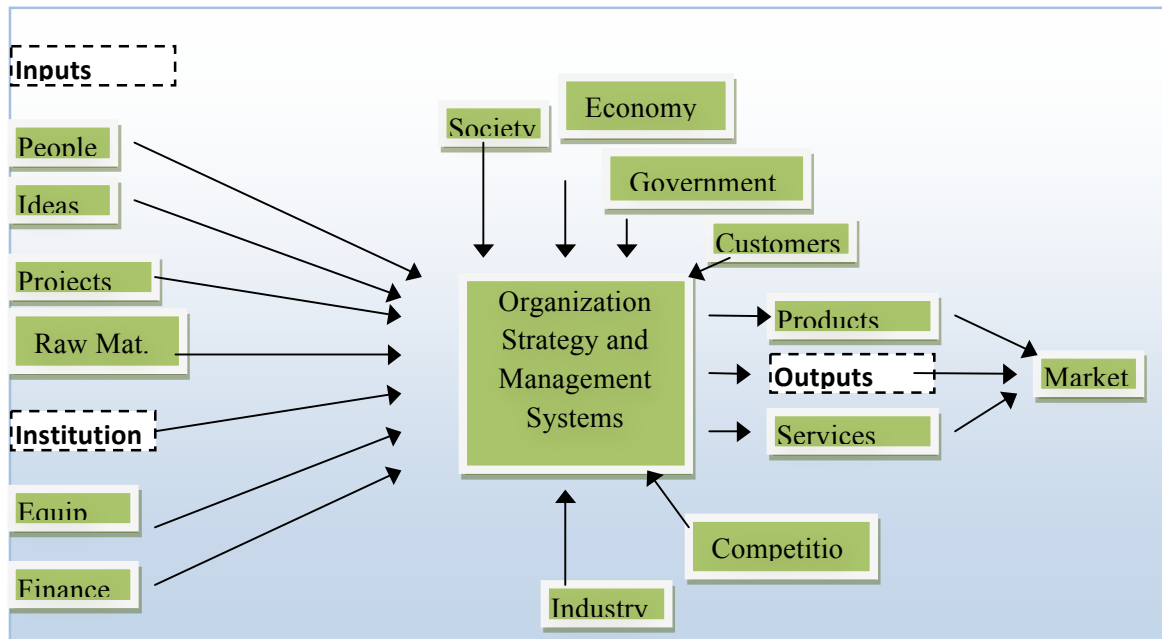


Figure 1: Strategic Management and Environment (Thomson, 2005)

Self assessment is a structured internal process of assessment against a set of standards to identify strengths and opportunities for improvement. It is simply a process of evaluating the firm and its performance against a framework, a model or a set of standards. An assessment model is established for the group. This model is shaped by considering group's specific requirements and priorities. (Ainscough M., Neailey K, 2003) Assessment tools can be used to determine the actual accomplishment of goals and objectives by leaders and managers. The enterprise can have an assessment team to manage internal assessment (Deborah L. et al., 2006)

Model of the Strategy

Strategy defines itself in terms of drafting the plan of the war, shaping individual campaigns and, within these, deciding on individual engagements (battles) with the enemy. Strategy in this military sense is the art of war. The analogy with business is that business too is on a war footing as competition becomes more and more fierce and survival more problematic strategy answers two basic questions: 'Where do you want to go?' and 'How do you want to get there?' Strategy manages the correlation between organization and changing environment. Internal and external factors effecting company are identified to form strategies. There should be a relationship between internal competences and values to firm's external environment. Four key elements of strategy formulation are shown in Figure 2. There is a strong relationship among parties which are internal and external. Each part requires reciprocal data sharing. Internal factors use resources to avoid external dangers (Viljoen, J. and Dann, S., 2003) There is a challenge for the firms to find the 'fit' what the firm does and what the environment requires. Moreover, it should be ready for the new environment that future may bring. This environment can be totally different and firm should evolve its capabilities and culture to tackle with new environment. (Porter, et al., 2001)

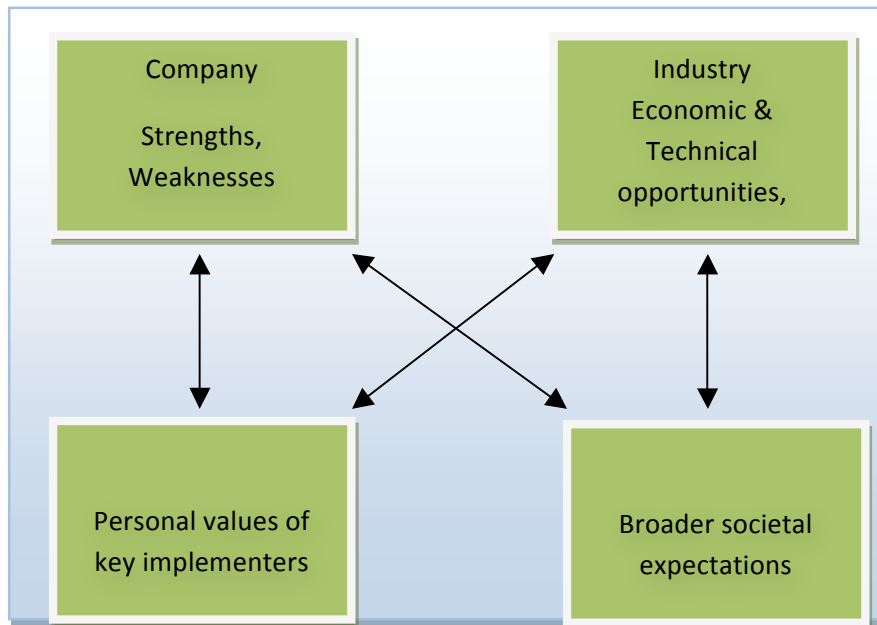


Figure 2: Four Key Elements of Effective Strategy formulation (Browne, et al., 1999)

The key strategic issue is to put in place a system of management that will facilitate the capability of the organization to respond to an environment that is essentially unpredictable, fast-changing and, therefore, not agreeable to a planning approach. There is no one best way of strategy. This approach emphasizes speed of reaction and flexibility to enable the organization to function with surrounding environment. The essence of strategy, according to this view, is adaptability and instrumentalism. (Thomson, 2005)

To understand the strategies of the group, we have to understand, unless we were in a start-up situation, what factors had made the firm what it was in 2005. The existing state, particular range of products and services, plans for future, reasons of changes, strategic decisions taken in the organization, management style, organization structure and the link between strategy and structure must be well understood. (M. Higgins, et al., 2001) Firm's business investment strategy can be built to get sustainable resource advantages through effective organizational controls. Critical organizational changes involving in implementing firm's investments are to be consistent with intended organizational development goals. (Yan, et al., 2009)

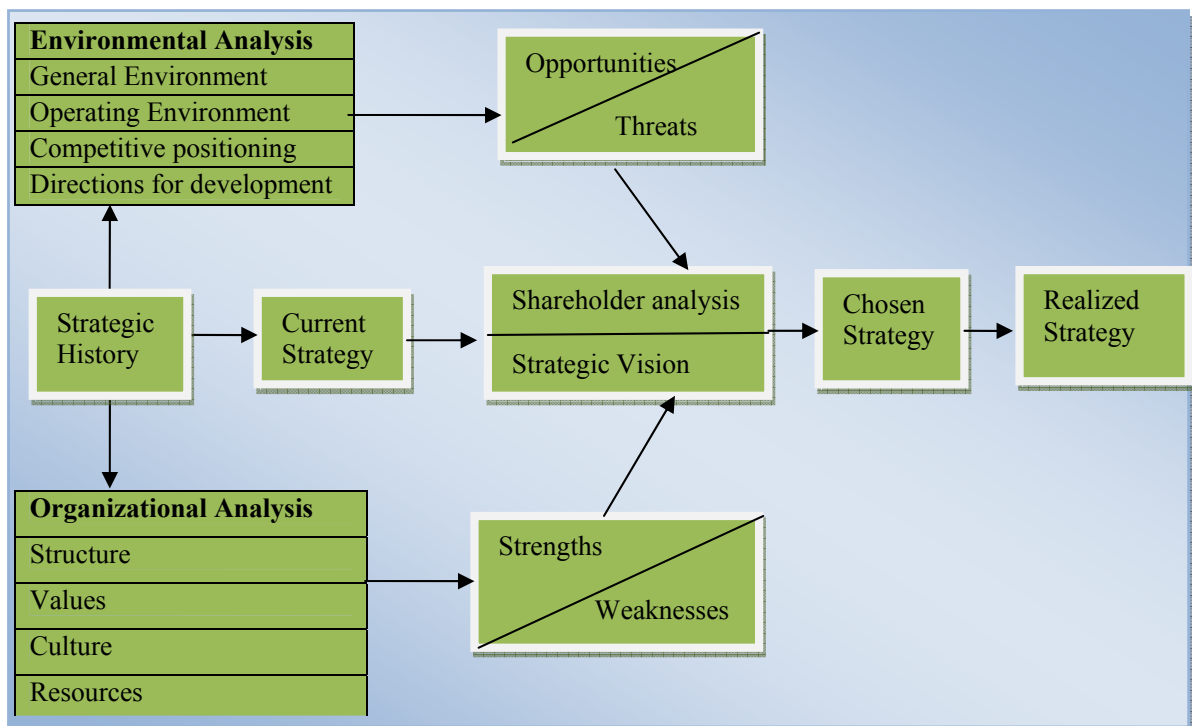


Figure 3: Strategic Model (M. Higgins, et al., 2001)

A model of the strategic management process is set out in Figure 3. This is a model that worked for us in terms of organizing our thinking about strategy and our attempts to understand the strategic issues facing firms. It is not suggested that it is the only model that is useful or that this is the best. Current strategy has its roots in the strategic history of the firm and its management. Employees' current strategy is the result of the interaction of intended strategy and emergent strategy. The organization's realized strategy can be the direct result of strategic planning and the deliberate formulation and implementation of a plan. More often, it is the outcome of environment analysis and organizational analysis. In some cases, realized strategy can be very different from the chosen strategy. In such cases, the strategy can be described as emergent in the sense that strategy emerges from an ongoing series of decisions. SWOT analysis is drawn from external and internal environments of the organization to determine the strategic vision of firm based on the analysis of shareholders. One can think of a well developed strategic vision in terms of probing opponents' weaknesses; withdrawing to consider how to act, given the knowledge of the opposition generated by such a probing; forcing opponents to stretch their resources; concentrating one's own resources to attack an opponent's exposed position; overwhelming selected markets or market segments; establishing a leadership position of dominance in certain markets; then regrouping one's resources, deciding where to make the next thrust; then expanding from the base thus created to dominate a broader area. The leading strategy is the best strategy is geared towards radical change and creating a new vision in which the firm is a leader rather than a follower of trends set by others to help managers improve organizational effectiveness and corporate profitability. (El Sawy, et al., 1988)

Managers may scan their environment and decide that there are major changes occurring in their business world to which they have to adapt. Or they might decide, through internal analysis, that they have the ability to develop a new way of doing business that will redefine the nature of the business they are in. If change is the order of the day, then two issues need to be addressed: external analysis and internal analysis. For a change of strategy to work, there must be alignment between internal capability and external opportunity. This is described as 'strategic fit'. (Tiwana, Amrit, 1999)

Organizational Design

An appropriate organizational design is generally viewed as enabling “an organization to execute better, learn faster, and change more easily.” It comprises multiple, interrelated elements, frequently categorized as structure, people, processes, rewards, and tasks or work systems that together can create unique organizational capabilities that provide a competitive advantage . For organization design, top-bottom approach with full participation and active involvement are seen as essential for getting commitment from all involved parts and ensuring that strategic reorganization actually is realized.(Beer, M., 2001) The main decision lies with top management since they decide how to allocate the resources of the firm. The resource theory of the firm is generally recognized that a good fit between strategy, organizational design, and external opportunity creates a competitive advantage for the organization. (Sminia, A., 2006)

In hypercompetitive industries, organizations increasingly compete on the basis of being “good at combining difficult-to-combine organizational capabilities” and being able to adjust its strategies to take advantage of or create new opportunities. (Thomson, 2005) Organization development improves the total system and interdependent parts of the company. Moreover, the effectiveness and performance of the organization increase closely with shareholders. (Dunn, J., 2006)

Mission and Vision

The mission defines the long-term vision of the organization in terms of what it wants to be and whom it wants to serve. The concept of mission has become increasingly fashionable in discussions of strategy. Indeed, some analysts go as far as asserting that a good ‘mission statement’ can provide an actual worthwhile alternative to the whole task of corporate planning. The definition of a firm’s strategic mission encapsulated in the mission statement can be thought of as the first stage of the strategy process. A business is defined by its mission. Only a clear definition of the mission of the organization makes possible clear and realistic business objectives, because the purpose of the firm in terms of its enduring sense of its reason for being is understood from the mission statement. (Thomson, 2005) A firm needs a well defined sense of its mission, its unique place in its environment and scope and direction of the growth. Such a sense of mission defines the firm’s strategy. A firm also needs an approach to management itself that will harness the internal energies of the organization to the realization of its mission. (El Sawyet, et al., 1988)

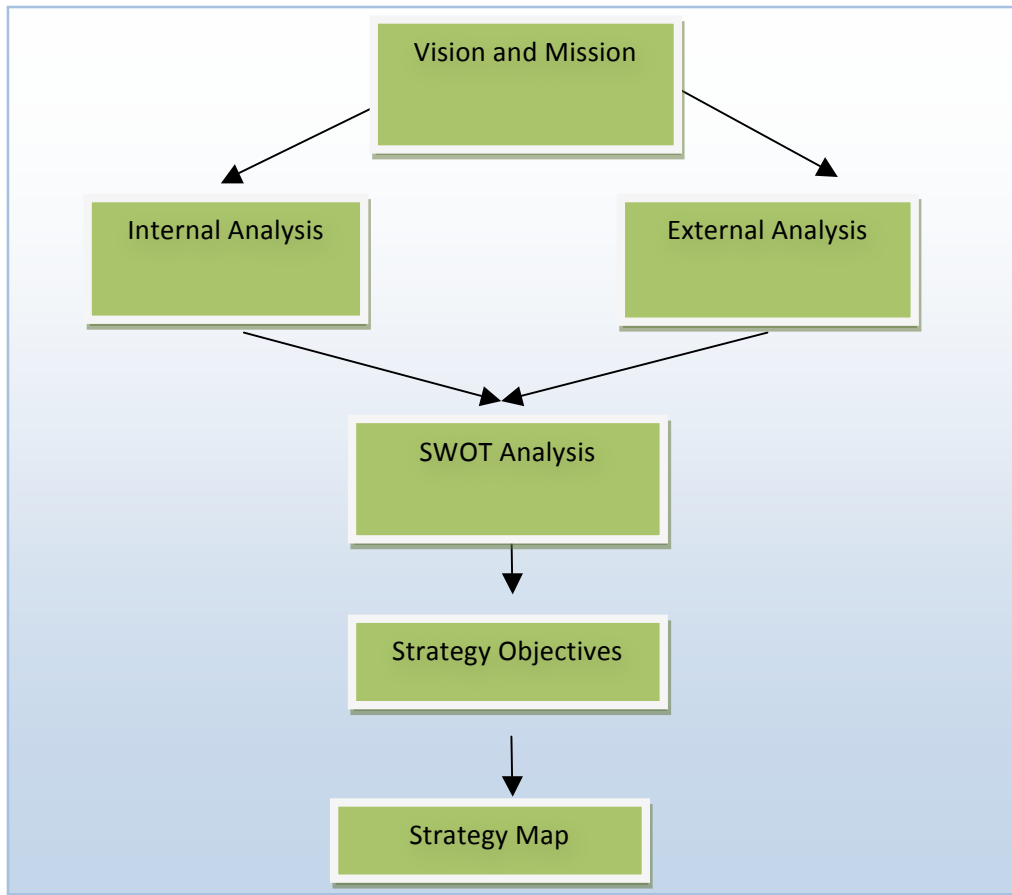


Figure 3: Identifying Strategy Map (Luis E.Q., et al., 2009)

Every organization has a ‘theory of the business. When this theory fits the external reality, is internally coherent, and known and understood by everyone in the organization, then success follows. Based on the mission and vision of the firm, external and internal analyses of the firm are carried out. After that the SWOT analysis is undertaken. As shown in Figure 3, the strategic objectives are determined from SWOT. From strategic objectives, the strategy map of the firm is established.

SWOT Analysis

SWOT analysis is a tool for auditing an organization and commonly used for analysing internal and external environments in order to attain a systematic approach and support for decision making. If it is used correctly, it can provide a good basis for successful strategy formulation (Hsu-Hsi C. and Wen-Chih H. , 2006). It involves the design of the organizational structure and control systems necessary to implement the chosen strategy. SWOT analysis can be conducted before mission and goal statement. (Hax, A.C. and Majluf, N.S., 1991) SWOT identifies Strengths and Weakness and examines the Opportunities and Threats of an organization. SWOT analysis suggests that firms that use their internal strengths in exploiting environmental opportunities and neutralizing environmental threats, while avoiding internal weakness, are more likely to gain competitive advantages than other kinds of firms (Jay B, William H., 2007).

It is essential to conduct SWOT before proceeding to the formulation of a corporate strategy. As, SWOT Analysis is an extremely useful tool for strategic analysis and understanding an

organization's current position in its business environment, the implementation of it become vital for an self assessment project. The internal assessment interrogates all aspects of the organization covering, for instance, technical knowledge, personnel, facilities, location, products and services in order to identify the organizations strengths and weaknesses. The external assessment examines the anthropological effects, political, economic, social, technological and competitive environment with a view to identifying opportunities and threats. (Karppi, I., et al., 2001) It is also used for problem defining and solving as well as for market analysis. It is known that SWOT is offered before a development of an effective budgeting. (Lee, S.F, et al., 2005) Analyzers must be realistic about the strengths and weaknesses of the organization. It is vital that not being humble and being as pragmatic as possible.(Leslie L. J. and Grossman T., 2002) The analysis should distinguish between where the organization is today, and where it could be in the future. Keeping SWOT Analysis short and simple will enable to use these information in related tools i.e. TOWS (Threats, Opportunities, Weaknesses, Strengths) matrix. So, during the analysis avoiding complexity is important. The issues must be examined from customer's perspective over the analysis. (Dyson, Robert G., 2004)

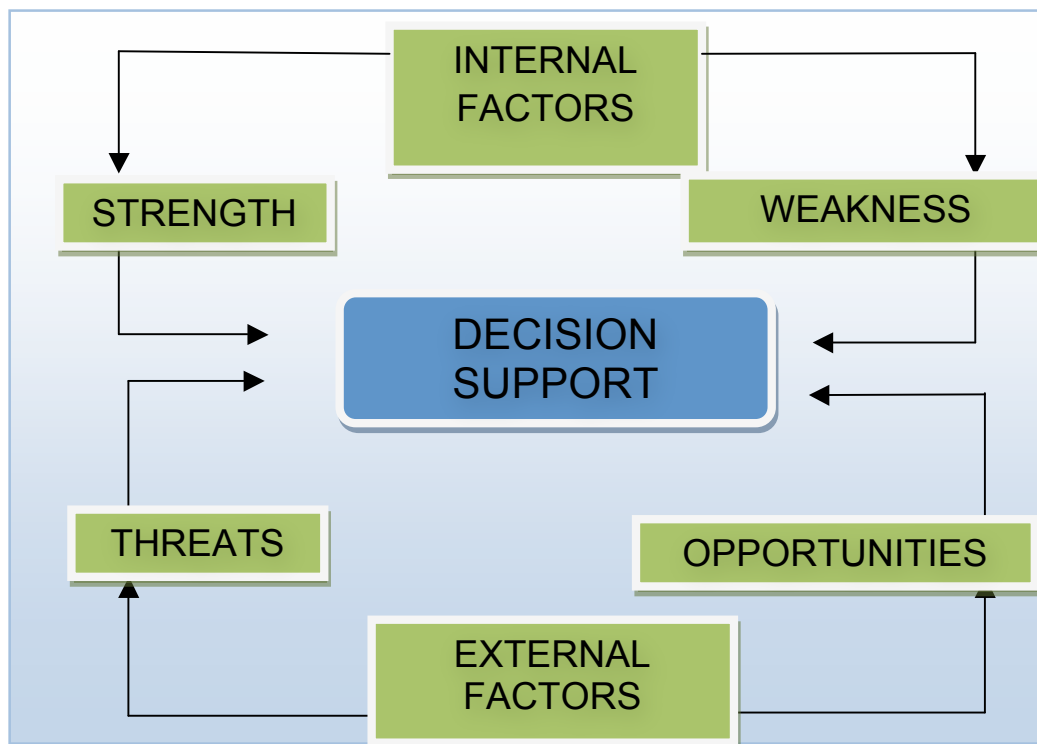


Figure 4: SWOT analysis and Decision Support (Thomson, 2005)

Strength is the affirmative internal factor. It is firms' strong points. This should be from both internal and external factors. (Dunn, J., 2006) Weakness is the unfavorable internal factors (T. Pascale, Richard, 1984) Opportunities are favorable external factors. Determining opportunities means determining how organization can continue to grow within the marketplace. Threats are unfavorable external factors that are out of our control. (Lee, S.F.et al. , 2005) How internal and external factors affect decision supporting system of the firm is shown in Figure 4.

Coverage of SWOT Analysis

The coverage of the SWOT Analysis is determined by the firm's and competitors' resources. Major types of resources are financial, organizational, intellectual, informational, relational, legal, human resources and resources related with reputation. The coverage can be extended for management information, supply of raw materials and production process. However, these are more specific titles. In this study, we had also the opportunity to assess the management information, however, couldn't examined supply of raw materials and

production process. The technicians of the organization could assess raw materials and production process in the project.

There are several tools that are used in strategic management. Some of them are used as complementary to SWOT. TOWS matrix is the essential completing tool. It enhances deploying strategies systemically considering the relations between Strengths, Weakness, Opportunities, and Threats. PEST analysis, which stands for Political-Economical-Social-Technological, is another complementary tool. Social environment is another concept that must be evaluated by PEST Analysis. The consequences of the internal and external factors can be replaced in a matrix called TOWS Matrix is shown in Figure5. TOWS matrix helps to systematically identify relationships between threats, opportunities, weaknesses and strengths, and offers a structure for generating strategies on the basis of these relationships. (Weihrich, H., 1982)

TOWS Matrix	External Opportunities (O) 1. 2. 3.	External Threats (T) 1. 2. 3.
Internal Strengths (S) 1. 2. 3.	SO Strategies that use strengths to maximize opportunities.	ST Strategies that use strengths to minimize threats.
Internal Weaknesses (W) 1. 2. 3. 4.	WO Strategies that minimize weaknesses by taking advantage of opportunities.	WT Strategies that minimize weaknesses and avoid threats

Figure 5: TOWS Matrix (Weihrich, H., 1982)

The external environment of any organization can be analyzed by conducting a PEST analysis. External factors usually are beyond the firm's control and sometimes present themselves as threats. For this reason, some say that "PEST" is an appropriate term for these factors. However, changes in the external environment also create new opportunities and the letters sometimes are rearranged to construct the more optimistic term of STEP analysis. The organization's environment is made up from three factors known:

- The internal environment: staff (or internal customers), office technology, wages, finance etc.
- The micro - environment: the external customers, agents, distributors, suppliers, competitors etc.
- The macro - environment: Social-cultural forces, Economic forces, Environmental forces, and Political (legal) forces.

Macro-environment's components are known as STEP factors. (Dyson, Robert G., 2004)

REORGANIZATION OF KIPAŞ GROUP

The reorganization of the group was done after internal and external analyses of the firms and observations from surveys and interviews. From internal and external analysis, SWOT Analysis of the group was carried out. The details of project were explained to every person from top management during interviews. Everything must be planned well otherwise desired changes may be resisted and not accepted by persons. It was expected from them that they evaluate the firm objectively for such a critical project. Moreover, their political considerations were also taken into

account. They were employed by both families. Thus, they support the family that employed them. Every family desired to get more control over the group.

Conditions were considered at outset of project:

- Organizational transformation
- Whole system analysis
- Making the organization climate more consistent with both individual needs and the changing needs of the environment and shareholders.
- Cultural norms and ethics
- The old organization structure and roles of top management
- Intergroup collaboration among companies
- Opening up the communications system to the whole group
- Better planning
- Motivation of the work force
- Adaptation to a new environment such as crisis.

SWOT Analysis of Kipaş

In this part, strengths, weaknesses, opportunities and threats of Kipaş group are presented in the light of the internal analysis and external analysis. The strengths and weaknesses stem from the interviews, observations and results of questionnaire, however, the opportunities and threats are drawn out from external analysis, especially from SWOT analysis of Turkish textile & apparel industry and removal of quotas. The summary of SWOT Analysis of group is shown in Figure 6.

<p style="text-align: center;">• STRENGTHS</p> <ul style="list-style-type: none"> • One of the powerful group in Turkish Textile Sector • 26 year experience in Textile Sector • Successful entrepreneurs • Experiences in Energy Sector • Having strong support from Governments 	<p style="text-align: center;">• WEAKNESSES</p> <ul style="list-style-type: none"> • Lack of Human Resource(HR) Management • Insufficient expert workers • Lack of performance measurements • Carrying high inventory and lack of Aggregate Planning • Distance among firms
<p style="text-align: center;">• OPPURTUNITIES</p> <ul style="list-style-type: none"> • Accessing to European Union(EU) • Removal of Quotas if used well • Having capital for investments • Regulations and improvements in Energy Sector • Turkish Governments Policies for regional developments 	<p style="text-align: center;">• THREATS</p> <ul style="list-style-type: none"> • Increasing customer expectations • Improvements in competitors • Disagreements among stakeholders • Low labor countries such as China and India • Removal of Quotas

Figure 6: SWOT Analysis of Kipaş Group

Strengths

The most significant strength of Kipaş is its influence in territory and influence of territory on it. It employs approximately 4000 worker in Kahramanmaraş which is southwest of Turkey and not well developed city when compared with other cities in Turkey, which makes Kipaş precious for the region. It is also at the top ranks in terms of employment in country wide lists. This makes it not only an economic but also a political force in the region. Besides, it is experienced in legislations during the incentive programs for the region, sector and export.

The integrated structure of its facilities and producing resources required for textile production are other advantages of it. At the head facility of it, the different factories which are located side by side, supply the subsequent beginning spinning to the fabric. The output of each factory is input for another one. Moreover, it produces its own energy and grows cotton as well. The new machinery pool of it is another important asset. As all the production facilities of it are located at Kahramanmaraş, it results in significant advantages for the company since the labor costs are lower in territory than Marmara and Aegean region. Additionally, the company is close to harbors and cotton growing centers such as Adana and South East Anatolia.

The founders of Kipaş are successful entrepreneurs and since company was established, they have made right investment decisions. The harmony between stakeholders is the main source of these correct decisions. The managers of companies, who have been working since foundation, considered the company as theirs. Consequently, the loyalty among these managers is worthy for company. The knowledge created during 26 years and experiences in all substructures of textile sector and energy sector are additional strengths. Furthermore, the financial success of company and possessing the venture capital are other advantages of company which differ it from general situation of sector.

Weaknesses

The significant drawback of the company is neglecting human factor and not considering Human Resources (HR) as an asset as realized from interviews and surveys. The main symptom of this approach is lack of HR strategies for top management. Shareholders employed high wage workers. As a result, the company hired inappropriate managers and engineers, generally relatives and incapable expert workers. Moreover, as company ignored education activities, these managers couldn't develop themselves. Moreover, many workers were unhappy about working conditions and wages. The other weakness of the company is vagueness in task, responsibilities and job descriptions. Authority problems among managers and top management are occurred as result of this ambiguity, consequently, motivation lessened.

The gap between companies of group and absence of aggregate planning activities are other problems. The logistics of company is not well managed, just carried out task in an unorganized way, which resulted in high inventory. The company doesn't have adequate marketing activities and customer relations. The lack of their own brand is another weakness of the company even though they have the potential. Disregarding manager's ideas and suggestions in tactical level decisions, lack of performance measurement and team working are other incompetence of company.

Opportunities

If company creates its own brand and invests in retailing part of textile with high value-added products that they can easily produce, removal of quotas, however, seems as a threat, can also be a significant occasion. From associate towards full membership, Turkey's European Union journey is another international positive development for Kipaş considering the share of EU in total exports of company. Additionally, this development enables the group to start their first retailing attempts in Europe, particularly in Western Europe where the profit margins are high for the textile retailers.

Recent improvements in macroeconomic level, export incentive policies and planning of recent government and some legal arrangements, made in order to improve the investment environment are other chances considering the capital that company owes. They have very good relationships with existing governments and could get funds from them for investments. The potential energy requirement of Turkey and the experiences and new investments of the company in that area can also change the focus point of Kipaş from textile to energy. Moreover, with the completion of Southeastern Anatolia Project (GAP) increasing cotton production and the improving investment environment for food and agriculture sectors lead company new ventures.

Threats

In the condition that Kipaş does not respond to change requirements such as removal of quotas, crisis etc. can cause dramatic results. It is clear that Kipaş at the segments in which it is active is

possible to be invaded by China, India and other low labor cost economies' products and domestic competitors.

The other threats for the company are improvements in competitors, increasing customer expectations, decreasing loyalty among blue collar worker as reaction to subcontracting and low salaries

Organization Structure of Kipaş

After wide analysis, it showed that there was a need for change and this change must be started from top. Thus, the old organization structure of the Group was changed by taking into consideration the current needs and future expectations. The SWOT Analysis was very helpful while designing the structure. It was used to determine strengths and weaknesses of the group to get opportunities and avoid threats. It was not only the decision of project team to change the structure but the decision of two families. Both families must agree on new structure otherwise conflicts would start again. Duties and responsibilities of each function were prepared.

The Old Organization Structure of Kipaş

The main characteristic of the old organization of Kipaş Group illustrated at Figure 7 was its dual headed structure. Every department and company was directly responsible to this structure and every decision must be made or approved by chairmen of the board. These decisions vary from very simple ones such as an official procurement to very extensive ones. Moreover, the single approve of a chairman was not enough to execute; both of the chairmen had to approve and sign any decision or document. There were many conflicts between families. There were two individuals, fiscal coordinator and an internal auditor, who was also directly related to chairmen. The major duty of fiscal coordinator was to assist in budget preparation and accounting support. The internal auditor was responsible for finding out any factors which conflict to benefits of the organization. These factors can be action, such as a theft, or worker, such as an insider. In other words, we can define internal auditor as the company police. There were 6 functional departments in Kipaş: Finance, Procurement, IT (Information Technology), Accounting, Sales and Personal Department as shown in Figure 7.

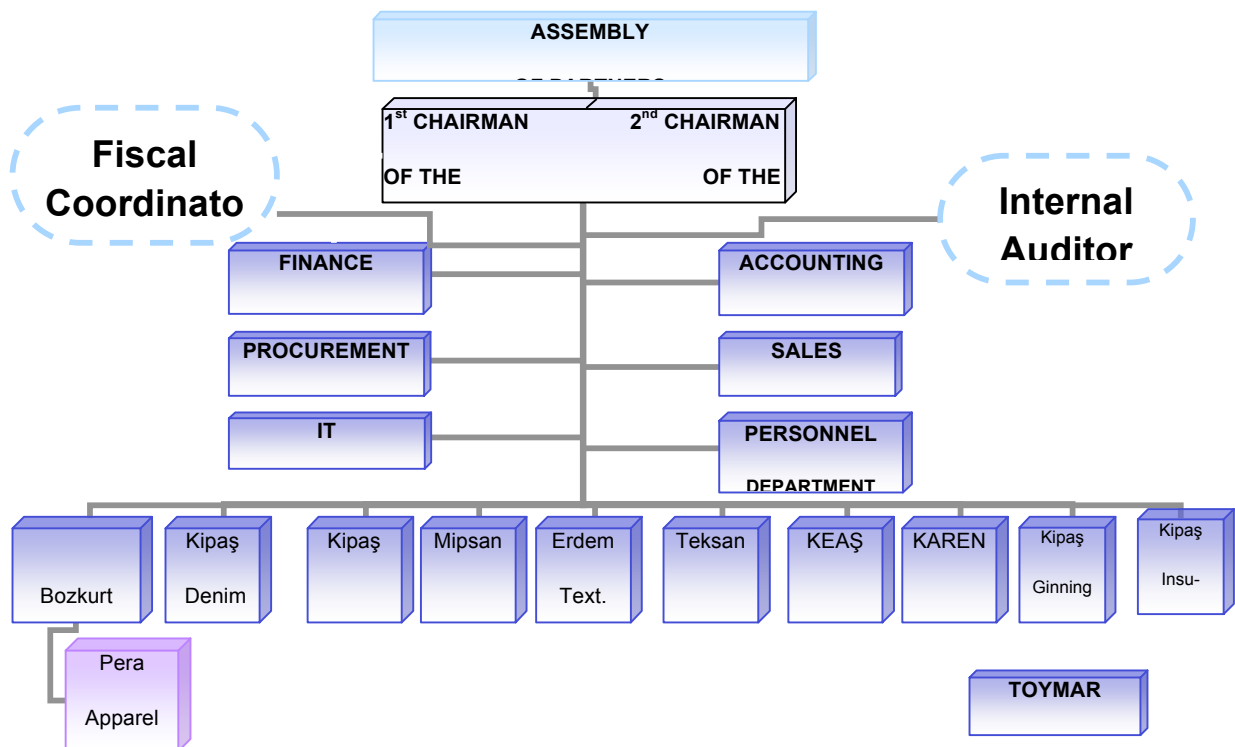


Figure 7: The old organization structure

The financial situation and credits of customer were being tracked by the Finance Department. Accounting Department was responsible for bookkeeping of all companies. Procurement was responsible for all purchasing; direct material, indirect material and overheads but cotton. Cotton was procured by the 1st chairman which is equivalent to the 70% of its total purchase of the company. However, with the procurement department, the 2nd chairman was responsible for the second important purchased item which is chemicals used in production. All of other items were being purchased by procurement department although they don't know how and where these materials are used. It was possible that some machine parts were purchased by this department. Shortly, they were also responsible for spare parts without technical knowledge on it. Sales department was responsible for the domestic sale activities. The exportation was generally performed by Bozkurt Textile's sales department in Istanbul. There were no marketing activities in sales department. Information Technologies Department was responsible for all communication infrastructure of the company and security of the system. It also managed the hardware and software assets and the web page of the group. However, this web page is just for the representation of the company and doesn't have any function for e-business or e-commerce.

The whole infrastructures of all firms had been decided to be combined in a project but IT department could not finish this project in two years. It was still a going on project. The workers of this department were not well educated in technological improvements. They did not know even the details of project. Many of them were employed long time ago. Personnel Department was dealing with the hiring of the low level workers and public transactions of social security, insurance and wages. However, middle and top level workers were employed by the chairmen of the board. They did not have any human resource politics. The chairmen of the board have mainly employed their relatives.

At the old structure, the two chairmen of the board directly controlled all companies of Kipaş Group, but Bozkurt Textile and Toyomar. As the head office of the Bozkurt Textile Co. was located in Istanbul, the two chairmen whose offices are in Kahramanmaraş were far from there. The former owners of the Bozkurt Textile, where the avant-garde modern product planning applications launched in Turkey, was Koç Holding and it has a reputation in the sector. Respectively, Bozkurt Textile is different than all other companies of Kipaş. It was managed independent from Kahramanmaraş and also has own separate functions such as sales. As Bozkurt Textile generally does international business, its sales department have experienced in world markets especially in USA and EU. Toyomar was the head agent of Toyota in the territory and it differs from other companies by sector. Its bookkeeping activities were performed by the center of Kipaş.

New Organization Structure of Kipaş Holding

In this part, the proposed organization structure shown in Figure 8 and the factors of SWOT analysis in Figure 6 how they affected new design are explained. New organization structure of new holding is designed regarding the outputs of assessment studies.

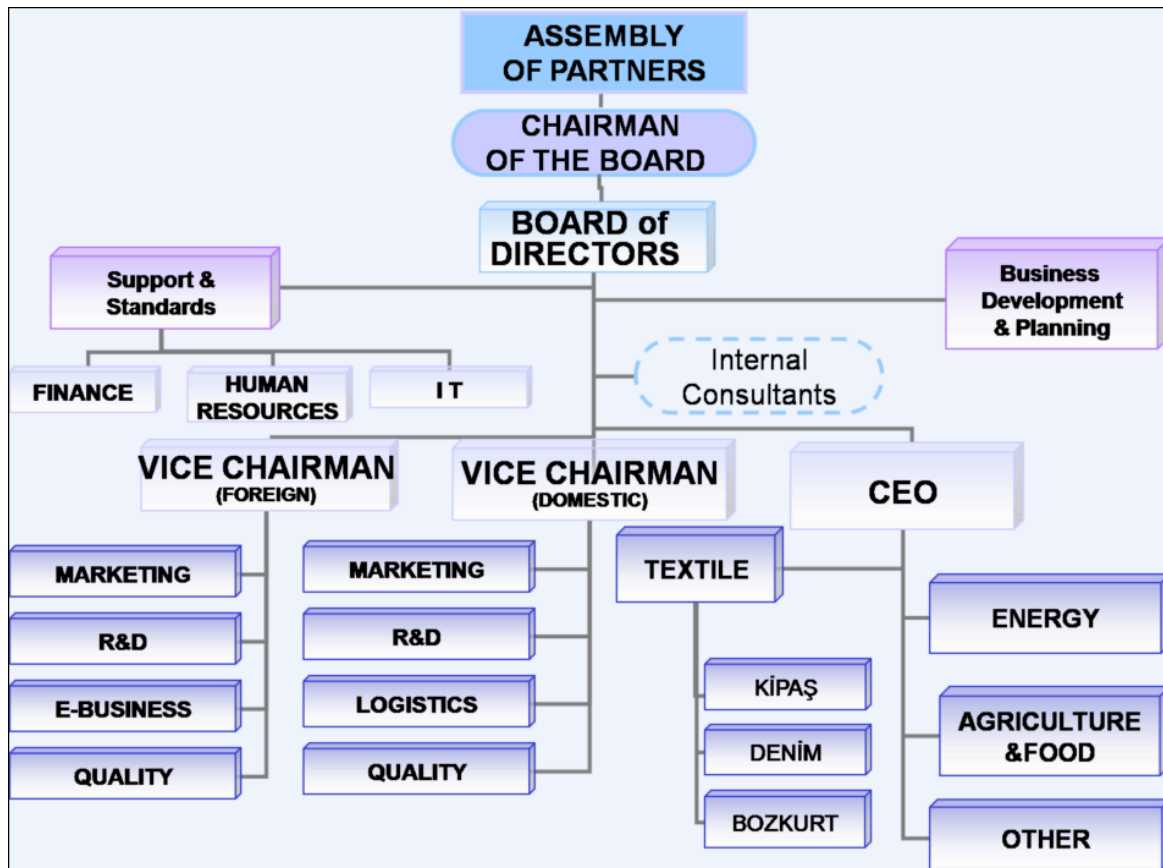


Figure 8: New Proposed Organization Structure of Holding

The separation of the basic functions, marketing, R&D, Logistics (E-Business) and Quality, in two groups, Foreign Business and Domestic Business, is the different part of this structure. Export has a great share in revenues of Kipaş and organization considers the Foreign Market as the target point. However, the way of business in textile differs incredibly in Domestic and Foreign Markets. Consequently, the approach of the functions which work with abroad (Istanbul side of the group) and the ones doesn't contact with foreigners (Kahramanmaraş side of group) differs. Taking into account of broadening gap between the departments and production functions in Kahramanmaraş and Istanbul, this separation becomes essential. To illustrate, the foreign marketing deals with abroad activities and the promotion of products that are sold in Foreign Markets. On the contrary, domestic marketing deals with activities in Turkey and the promotion of products that are sold in Turkish Market. Similarly, Foreign Quality focuses on catching the voice of foreign customers and Domestic Quality focuses on customers of domestic market. However, there are some differences between E-Business and Logistics

Domestic Logistics

Logistics activities are very critical for the Group. One of the significant weaknesses Kipaş was carrying high inventory and lack of aggregate planning. Each company of group was making their own production plan but this was not performed by looking at the big picture. This is resulted with high inventories and costs. To eliminate this logistics department is offered. When we think of the huge production of textile products of the group, the management of logistics is understood better

The tasks of domestic logistics are as following:

- Make business plans so that the customer orders are matched to production orders and accordingly scheduled material purchase orders. It manages the value chain from customer back to the supplier.
- Choose the right suppliers according to the quality-price performance and manage the suppliers so that they deliver the raw-material on the planned times. (Powerful customers make loyal suppliers keep safety stock for a month etc. so that spot requests can also be responded).

- Manage warehouses: Kipas Group has Maras and Istanbul warehouses for finished products and two warehouses in Kahramanmaraş for material stocks, Kipas and Bozkurt.
- Plan and manage the transportation.

E-Business

E-business operates and manages business relations on internet. It is not e-commerce since there were no direct sales to customers. E-business includes relations with the suppliers through Supply Chain Management (SCM) and partner relations through Partner Relations Management (PRM). For Kipas we mean:

- Communication and formal document exchange among Kipas and the resellers in United Kingdom and USA.
- Communication and document exchange with the Cotton providers for cotton importation.
- Sales operation management for the sales to the representatives and the distributors for the purpose of exportation.

These need not only a web page for the presentations but technological infrastructure to run and manage operations on the Internet. Shortly, in this side, separation of functions by domestic and foreign, departmentation by customer is used.

Grouping of Companies

To manage effectively the activities of companies, they were grouped. Their geographical positions were considered while doing grouping.

Textile Group

The companies under this group are Kipaş Denim Mills, Bozkurt and Kipaş which would be the combination of Erdem Textile, Kipaş and Mipsan. Considering the proximity of these three companies' (Erdem Textile, Kipaş and Mipsan) with respect to products, processes and input output relations, they can be considered as a value chain, they are combined to enhance the control of production. Shortly, these are the companies under textile group:

- Kipaş Denim Mills
- Bozkurt
- Kipaş
 - Old Kipaş
 - Erdem Textile
 - Mipsan

Energy Group

Under this group, there are two companies: one of them is Karen which produces the energy that factories use and Keaş that is founded for dam construction and management activities. However, this number of companies and their size seems small to create a group, this is sector will be one of the target sector of Kipaş.

Food and Agriculture Group

Recently, there is only one company in this group named Kipaş Ginning Agriculture which mainly obtains the needed raw material for textile companies, but this sector will be the other target point for new investments and with forthcoming investments that it will reach a group size.

Other Firms of Group

Under this group there was only one active organization which is Kipaş Insurance. Kipaş Education which was a private high school was just on paper and the construction launched in 2005 and finished in 2007. The schools have students now and expected that they will enlarge this group more. Teksan, paper cone producer, and Toyamar have been excluded from holding structure because of internal issues. They have their own management and give reports to the shareholders.

Factors Affects New Design

Considering the financial and consequently political power of company, it is not so tough to venture in new sectors. Business Development and Planning is a critical directory that aims to integrate the strategic planning of the current business as well as evaluating the opportunities for the whole group to assure the sustainability of the Holding Group.

We can separate the functions of this department as “Strategic Planning” and “Business Development”. Each company has his own planning unit that deals with the operational planning which feeds the Holding with information. Yet, integrating all the operational plans is a necessity not only to improve the effectiveness of the tactical plans but also to prepare the basis for long-term strategic business plans. For example, denim production plans and Kipas textile production plans are separately prepared but exportation is handled by Vice President of External Business. Integration gives the possibility for using the spot or durable opportunities in exportation besides domestic sales. To perform business development, there is one planning engineer tracing the global business opportunities in all fields concerning Kipas Holding and informing the decision makers (President and 2 Vice Presidents). He prepares the feasibility reports before presentation. Once an opportunity is found realistic in the Board, the case is taken as a particular project to be run. Then, the Project Team is established to include the experts from the field to analyze the business in detail. This department handles the project until the project is started as:

- a) a new function of one of the companies
- b) a new company

After that state, it is handled to the General Manager of the Company concerned (existing or new) to continue the operations. In fact, this function is performed by 1st Chairmen of Board. Business Development and Planning Department have significant responsibilities for enlargement in energy sector to value the new regulations and possible demand rise in this sector.

When the satisfaction analysis of the company by using surveys is examined, the lack of human resources considered the most important problem of Kipaş. Additionally, our observations resulted in a consensus on the majority of the inappropriate managers in company, especially, at the Kahramanmaraş. To compensate this drawback, a robust human resources department is proposed for company. By this department, the company can also measure the performances of the workers, this was absent at that time.

Creating a brand requires hard, intensive and lots of efforts. However, if the image of brand is set down, then the company can reach very high yield. The profit margin of the company can increase with creation of this high value added product. Firstly, the creation of brand requires a vigorous marketing department that would firstly decide the appropriate promotion process and then keep the sustainability of this brand. Moreover, to improve the attributes of product and use new technologies in an innovative way, the presence of Research and Development Department is fundamental. The quality concept of brand is developed by quality departments. Being at the right point at the right time would be run by E-business and Logistics departments.

EU is an important market for Kipaş and the foreign structure of Kipaş would enhance the activities in this market. Moreover, with dismiss of quotas, new markets are emerging and the new players would place to these virgin markets. The shares created in this process would be very easy but after a while, when the markets reach steady state, to penetrate these markets would not be easy. On the other, the low labor cost countries are threats in this foggy weather. However, this structure enables Kipaş differ from the companies of these countries by their service level and product quality. To evaluate these opportunities and eliminate this threat, the foreign part is strictly proposed

The other threats for Kipaş are increasing customer demands and improvements in competitors. The R&D (Research and Development) and Quality Departments could be effective to eliminate these threats. The R&D department focuses on not only the products but also the process and by developing processes of production the company increases its competitiveness. Quality department works with R&D concurrently for continuous improvement. This would enable to value Kipaş's experience in the sector and turn its knowledge assets to added value.

The Definition of Top Management and Organization Handbook

There was vagueness at carrying out the tasks. Every member of family tried to take part in every decision. Hence, it was not easy to make decisions. The most important steps for top management of Kipaş during establishing the holding were to balance internal and external dynamics in the global world in order to advance the holding. Duties and responsibilities are efficiently shared among stakeholders and professionals. The things that should be done for the future of Holding:

- Strategic and operational decisions should be separated.
- New departments needed for the holding should be opened.
- New standards should be prepared and implemented without any problem.
- Stakeholders should be empowered according to these standards.
- Strategic decisions should not be taken individually; they should be taken and applied by Board of Directors.

In Organization Handbook, duties and responsibilities of every function in the New Organization Structure are defined. Everyone is responsible just from his or her part. The job and main objectives of this job and responsibilities of each function or person are written on that part. Moreover, requirements for that function are determined. An example of Organization Handbook for Vice Chairman (Foreign) is shown in Figure 8.

KİPAŞ HOLDING	ORGANIZATION HANDBOOK
	Definition of the Job
DUTY	Vice Chairman (Foreign)
UNIT	Board of Directors
DEPENDING ON DUTY	Board of Directors
DUTIES DEPENDING ON VICE CHAIRMAN (FOREIGN)	Research & Development, Exportation, Quality and Marketing Directors
	The Main Objective of the Job
	Supporting Chairman of the Board and managing strategic decisions for the foreign countries in order to ensure the holding being successful.
	Responsibilities
	Defining marketing strategies for other countries Represent the Holding at abroad Establishing units at abroad under Holding Managing R&D for other countries markets according to Holding Targets Determining exportation politics for all firms and implement them Defining suppliers at abroad and coordinate them for the whole Holding Defining Quality Politics for other countries. Coordinating Design, Quality , exportation and importation activities of the firms Performing Exportation, Design , importation and Quality activities of each firm according to Holding politics and standards Coordinating directors and solve problems among them
	CRITICAL PERFECTIONS FOR THE JOB
	Assigned by the Board of Directors Shareholders or must administer at least 100 workers Having International experience Being open to the changes and having an extensive vision Being active to take Strategic Decisions and implement them Knowing very good at least one foreign language especially English
	WORKING CONDITIONS
Working Order	Attending Board of Directors once per month Meeting with directors depending on him once per week
Working Place	Istanbul

Figure 8: An example of Organization Handbook

CURRENT SITUATION OF KİPAŞ HOLDİNG

The group has finished the steps of the project and is a holding now. They have changed their structure in 4 years. These changes have helped them even in the last financial crisis started in 2008. The old structure was a big stone in front of them to see the future. After transition, they could make changes quicker. The core product of them is still textile but now they have done investment in cement industry which has not suggested in the project. They have done their other investments as suggested in the project. To compete with China and other countries, they have improved their quality as planned. The quality is not only enough to get more shares in the market and so they have improved their marketing and sales activities as well. They have been using their political power in the country for new investments and opportunities. In order to get that support, they have improved their production as sensitive to the environment. Moreover, they have opened a new hospital and done more investment in education even though they do not gain so much profit.

FIRM	ACTIVITY AREA
Kipaş Mensucat	Shirting, Velvet, Home Textiles
Bozkurt Konfeksiyon	Confection
Kipaş Denim	Denim Manufacturing
KÇS	Cement and Clinker Production
Mipsan	Open-End and Ring Spun Yarn Production
Teksan	Coil-Rolin Manufacturing
Kipaş Tarım	Greenhouse Farming, Fruit Growing and Viticulture
Kipaş Özel Eğitim	Education
Karen	Electricity Generation
Toymar	Motor-Fuel Vehicle Maintenance
Kipaş Pazarlama	Yarn, Fabric and Denim Marketing
Kipaş Sigorta	Insurance
Erdem Tekstil	Yarn and Fabric

Figure 9: Firms of the Kipaş Holding in 2010

CONCLUSION

The textile apparel sector is in a transition era and January 1, 2005 was a cornerstone for sector. The 40 years temporarily protection, began with The General Agreement on Tariffs and Trade (GATT) agreement, of developed countries' textile apparel sector has been terminated. After failing the attempts against China such as Istanbul Declaration, to extend the deadline for

implementation of the final integration stage from January 1, 2005 to December 31, 2007, significant player of the market including Turkey began to focus on non-tariff quotas or investigation of China due to unfair advantage as a result of government policies (currency manipulation, state subsidies etc.). Noticing the reactions and rapid increasing portion of China's in the market, the developed countries have been taking precautions and China respond to reactions with a little increase in tax of these sectors. Despite of these recent developments, it is impossible to turn to conditions before 2005 and the revolution in the sector initiated with new rules.

Countries and companies have developed or are still going on developing new strategies for the new game. Self assessment and SWOT analysis of Kipaş Group mainly focused on textile and apparel sector. An organization structure was prepared to respond to highly competitive markets. It is clear that, China and other low labor cost Asian Countries, such as India, have been gained advantage in the market. However, these regulations would undisputedly increase the competitiveness and in this environment companies would attempt to differentiate by design. Particularly in clothing, the importance of time to market would ascend dramatically. Consequently, the importance of proximity to markets such as EU and North America would intensify, which is an important advantage for both Turkey and Kipaş considering proximity to E.U. However, Turkish companies and Kipaş are obliged to concentrate on quality and supply chain activities and establish robust R&D structures to create innovative products and design in short periods to turn over these opportunities to yield. The yields of vertical growth are uncontroversial and Kipaş is a good instance of this. Kipaş had all steps of supply chain of textile from cotton to apparel. However, just last step of general supply chain was neglected by Kipas that was retailing. Kipaş must concentrate on last and most value added part of to chain. Creation of own brand is the most important step in this essence. In the light of the developments in EU journey of Turkey, as a strategy, Kipaş can start its retailing activities in Western Europe, more value-added markets rather than domestic market. The company has the knowledge, culture and values to implement the aforementioned strategies and proposed organizing structure.

Kipaş Group's two companies were enlisted in 2005 among the "Turkey's top 500 largest companies", according to a research conducted annually by the Istanbul Chamber of Industry. Subsidiary Companies Kipaş Mensucat A.Ş was ranked as 260th and Kipaş Denim 415th. Kipaş Group has been ranked among top 500 companies since 1991. In addition, two other subsidiaries has been enlisted among the "Turkey's second 500 largest companies" where Erdem Textile and Bozkurt Konfeksiyon has been ranked 173rd and 191st respectively. A new target of Kipaş Holding is to work harder so as to make other subsidiaries enlisted in these lists; and in return add value to Turkish Economy. Kipaş Holding, an institution that sets big goals for regional development and for our country, will continue to serve to our countries' future by leveraging the expertise gained throughout the 26 years.

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FINANCE STRATEGIES

THE EFFECTS OF THE FOREIGN DIRECT INVESTMENT ON TURKISH ECONOMY BETWEEN 2000-2009 PERIOD

Furkan Diskaya, Senel Secil Olmez, Ebru Terazi
Beykent University, Turkey

ABSTRACT

Foreign Direct Investment (FDI) became an increasingly important element in global development and integration during the 2000s. In today's global marketplace, many firms find it strategically necessary to engage in foreign direct investment (FDI) in one or more countries. These firms are attracted to FDI because it may offer them competitive advantage over local firms, a lower cost for labor and/or physical resources, secure access to physical resources and proximity to major markets and increasing market share. Foreign direct investment has spread rapidly through the world economy in the past two decades. More countries and more sectors have become part of the international FDI network. Turkey, as a developing country, has been one of the most attractive destinations for FDI especially after the 1980's with the effect of neoliberal policies. The aim of this study is to examine the influence of foreign direct investment on the growth of Turkey for the period 2000-2009.

Keywords: *foreign direct investment, Turkish economy, regression analysis, Granger causality test*

INTRODUCTION

Globalization and neoliberal policies in today's world necessitate the presence of foreign capital more than ever. Today's developing economies, which take economic growth and development as the ultimate goal but do not have sufficient domestic capital and savings try to do their best to attract foreign capital. Global FDI flows have been severely affected worldwide by the economic and financial crisis.

This paper examines the influence of foreign direct investment on the growth of Turkey for the period 2000-2009. The reason why the period 2000-2009 is chosen is to investigate the presence of hypotheses that the economic recession in Turkey and the global crisis in 2008 effect foreign direct investment. Regression and Granger causality analysis will be used in order to test the hypotheses about the presence of causality between Foreign Direct Investment and economic growth.

The article proceeds in the following manner. First, we briefly review the literature regarding foreign direct investment, economic growth and global crisis. We develop hypothesis concerning the effects of foreign direct investment on economic growth. Second, we focus on foreign direct investment trends in the world and Turkey. Next, we test our hypothesis using data from World Investment Report and Turkish macroeconomic indicators. Finally, we provide the research findings and discuss their economical and social implications.

DEFINING FOREIGN DIRECT INVESTMENT (FDI)

Foreign investment involves ownership of foreign property in exchange for financial return. Foreign investment is either made as portfolio investment or foreign direct investment. Portfolio investments do not require the physical presence of a firm's personnel or products on foreign shores. These investments can be made in the form of marketable securities in foreign markets, such as notes, bonds, commercial paper, certificates of deposit, and noncontrolling shares of stock. They can also be investments in foreign bank accounts or as foreign loans. Investors make decisions to acquire securities or invest money abroad for several reasons, primarily to diversify their portfolios among markets and locations, to achieve higher rates of return, to avoid political risks by taking their investments out of the country, or to speculate in foreign exchange market (Khambata and Ajami, 1992).

A direct investment is one that gives the investor a controlling interest in a foreign company. Such a direct investment also is called a foreign direct investment (FDI) (Daniels and Radebaugh, 1998). Foreign Direct Investment is direct investment outside the boundary of the investor's home country and is often the natural extension of direct exports (Levary and Wan, 1999).

The main concept behind FDI is the control of assets in another country. That is, foreign direct investment is generally undertaken by a firm that seeks to serve a new market for its products or services or that seeks to serve a new market for its products or service or that seeks to obtain additional supplies for its existing markets (Grosse and Kujawa, 1992).

Foreign Direct Investment occurs as the transfer of investable resources to other countries by individuals and companies. Therefore unlike portfolio investment, which is the second type of investment, it includes the transfer of intangible assets such as trademark, technology and business management as well as the authorization given to the investor to control the investment (Blomstrom and Kokko, 1998). Foreign direct investments are mostly made by multinational corporations. A multinational corporation is a business with significant investments in several foreign nations, which derives a substantial part of its income from foreign operations, and which maximizes its profits on the global rather than national level (Bennett, 1996). When a company invests directly within foreign shores, it is making a very real commitment of its capital, personnel, and assets beyond domestic borders. While this commitment of resources increases the profit potential of a multinational corporation dramatically by providing greater control over costs and operations of the foreign firm, it is also accompanied by an increase in the risks involved in operating in a foreign country and environment (Khambata and Ajami, 1992).

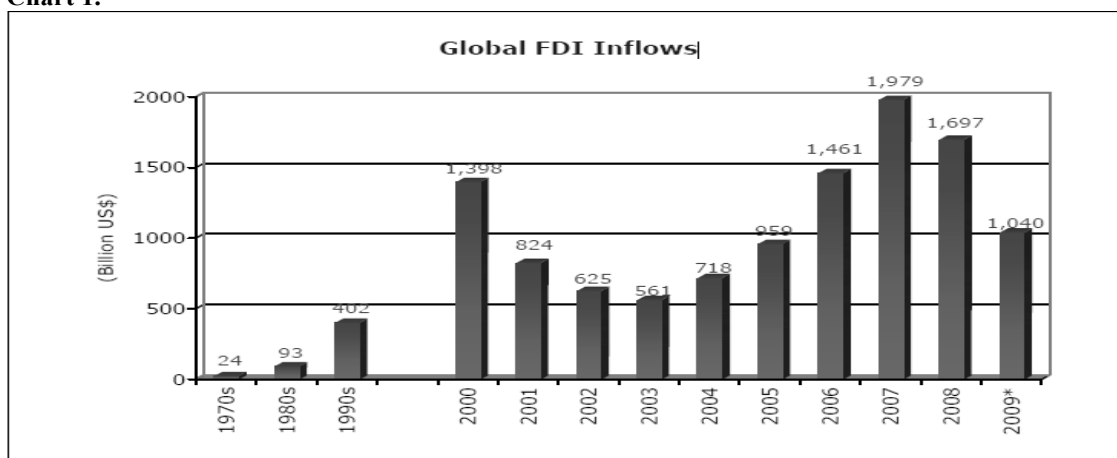
THE STRATEGY OF FOREIGN DIRECT INVESTMENT

There are many reasons for a firm to undertake foreign direct investment. A majority of studies done during the 1960s and 1970s disclosed that the most important reason for entering a foreign market was to sell products that the firm already sold successfully in its home country. Many other reasons have been defined since then. The reasons why a firm undertakes foreign direct investment can be grouped into the supply side and the demand side. The reasons for the supply side include: To lower production costs, to lower delivery costs (costs of transportation, insurance, tariffs, etc.), to acquire necessary raw material easily, to do offshore assembly, to establish a ‘portfolio’ of production sources and to obtain technology and know-how. The reasons for the demand side include: to explore new markets and to serve a ‘portfolio’ of markets, due to closure of an export market by a prohibitive tariff and quota, to establish a local presence with service and product availability, to meet ‘buy national’ rules or preferences in the host country, to gain ‘visibility’ as a local firm by employing local people, paying taxes etc. and to respond to rivals’ threats (Grosse & Kujawa, 1992).

PATTERNS OF FOREIGN DIRECT INVESTMENT

The vast majority of foreign direct investment that has occurred historically has been made in the period since World War II. This is the result of the growth in national markets, coupled with the willingness of developed-country governments to permit foreign ownership of local companies. In addition, such investment and exports has been facilitated by the tremendous decline in international transportation costs and improvement in transportation availability that have occurred in the postwar period.

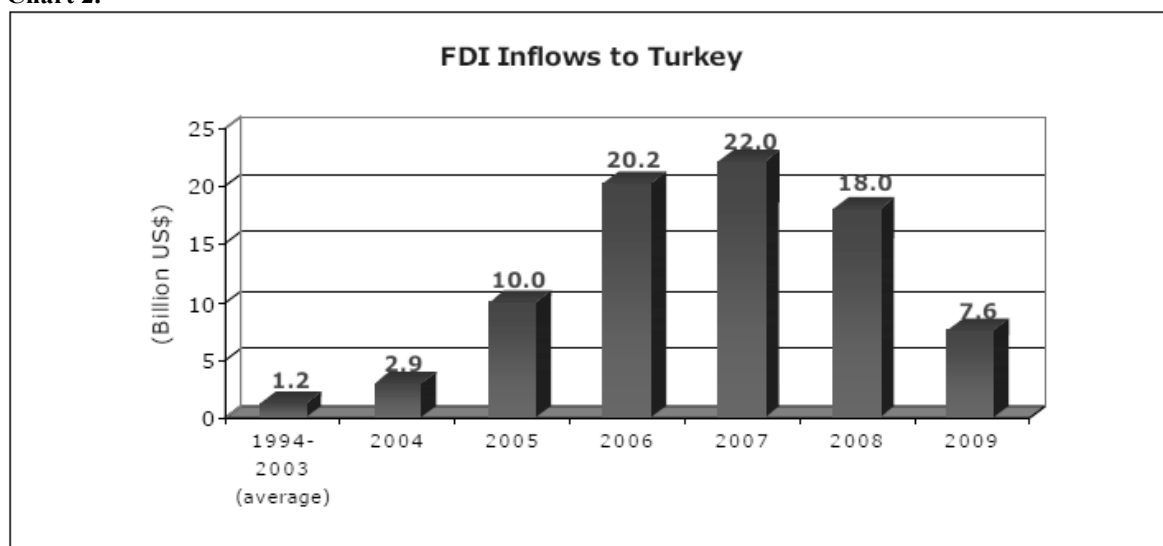
Chart 1.



Source: UNCTAD 2010

Especially after the 1980's there has been a marked liberalization of government policies and attitudes toward foreign investment in both developed and developing nations (Ball and McCulloch, 1999). Over the past decade, foreign direct investment flows have increased significantly worldwide. As seen in the graphic worldwide foreign direct investment have increased from an annual average of USD 181 billion between 1985- 1995, and an annual average of USD 310 billion between 1992-1997, made a peak in 2000 with USD 1400 billion and reached an annual figure of USD 916 billion in 2005. In 2006, worldwide foreign direct investment made was 1461 and has increased to 1979 in 2007 and has decreased 14 % to 1697 in 2008 due to the effect of the global economic crisis. (Unctad, World Investment Report 2009)

Chart 2.



Source: UNCTAD 2009

Turkey's experience with FDI flows has been slightly different from the worldwide pattern. Between 1994 and 2003 the average FDI Inflows to Turkey was USD 1.2 billion. In 2004 FDI has increased to USD 2.9 billion and USD 10 billion in 2005. The level of international direct investments made a sharp increase in 2006 to USD 20.2 billion. Among the main characteristics were the rising trend for developing countries as the source country for international direct investments and the increasing role for collective funds such as private equity funds in cross-border mergers and acquisitions. By the end of 2009, foreign direct investment (FDI) inflows to Turkey have reached to 7.6 billion US\$. In 2009, FDI inflows fell down by 58% compared to 2008. In 2008, the decrease had been limited to 17% because the effects of the crisis had only been felt towards the end of the year. As the crisis was more deeply felt, a sharper decrease followed in 2009.

Foreign Direct Investment has innumerable effects on the economy of a host country. It influences the production, employment, income, prices, exports, imports, economic growth, balance of payments and general welfare of the recipient country (Erdal and Tatoğlu, 2002).

FDI provides to the host country mainly, cheap capital, some advanced technology and entrepreneurial talent (Serin, Çalışkan and Karahmet, 2008). It is particularly critical for countries with low levels of domestic investment like Turkey. More generally, the strength of Foreign Direct Investment global flows is an indicator of the health of economic globalization.

Recently in the studies about the effects of foreign direct investment on economic growth there has not been a real consensus. The most common opinion is that there is a parallelism between these two facts. According to many researches, there should be appropriate investment conditions and a minimum economic development degree in a country for the increasing effects of foreign direct investment on economic growth (Arslan and Kökocak, 2006).

In the majority of the studies on the impact of FDI on economic growth, the production function approach and various methods in analyzing the data such as Granger causality test, panel data estimation, and error correction model is used (Jajri, 2009). Marwah and Takavoli (2004) examined the effect of FDI and imports on economic

growth in four Asian countries. The elasticity of the estimated production function of FDI was found to be significant in explaining the economic growth of all of the four countries. Estimated foreign capital elasticity was found to be 0.086, while import contributed 0.443 to growth in the case of Malaysia. Clearly, they conclude that both FDI and imports had a significant impact on growth.

Liu and Liu (2005), on the other hand, used the panel data of 84 countries to investigate the influence of FDI on growth. The study found a significant relationship between FDI and economic growth. Additionally, a stronger relationship was extracted when FDI interacted with human capital. This is because stronger human capital poses better absorptive capacities due to the complementary nature of the FDI and the human capital, most importantly for the developing countries.

In contrast, there have been several studies indicating a negative or no relationship between FDI and growth. Akinlo (2004) investigating the impact of FDI on economic growth Nigeria using the ECM, showed an insignificant negative influence of FDI on growth. FDI may influence growth negatively once there is an evidence of the foreign investors transferring profits, or other investment gains to their home country. Other noteworthy studies examining the influences of FDI employed the Granger causality test (Nair- Reichert and Weinhold, 2001 and Knoldy, 1995), but the results varied according to the country, the methodology and time frame of the study.

The 2001 economical crisis in Turkey and 2008 global recession and financial crisis have significantly affected FDI inflows. Even though FDI is more stable than portfolio investment, it is not insensitive to crises and especially to changes in the determinants of investment induced by a crisis (UNCTAD Report). On the relationship between FDI and crises, the literature on inward FDI postulates the well-known “fire-sale” phenomenon: paradoxically, FDI inflows may increase even while there has been short-term capital flight. The explanation is that the two flows are driven by different determinants—the latter is in response to a perceived increase in short-term risk profiles, while the former, which pursues a longer-term motive, is attracted by the asset-cheapening effects of a crisis (through lower prices in domestic currency terms and a depreciating Exchange rate) as well as a frequent by-product of a crisis, a more liberal FDI regime (Hill and Jongwanich, 2009).

METHODS

Data on GDP and FDI over the 2000-2009 period are obtained from UNCTAD World Investment Reports, YASED (International Investors Association) Reports.

While conducting an econometric study, the direction of the causal relationship among variables is determined according to the information obtained from the theory. Classical regression analysis is based on the assumption that the method used is correct and the direction of the causality is the determined in the model therefore; in this study Granger Causality Test will be used in order to test the hypothesis regarding the presence and the direction of causality between FDI and economic growth. In order to apply Granger Causality Test the series that belong to variables should be stationary. Therefore, it is necessary to make test for unit roots to examine whether the series for these two variables are stationary or not. Macroeconomic time series are usually not stationary. Such series are made stationary by calculating logarithm or taking first or second differences. There are many tests used to determine stationary. In this study, the stationary of the variables will be tested by using Augmented Dickey- Fuller unit root test. Here, Akaike and Schwarz criteria are used while determining the appropriate lag length for delayed variable. The models suggested for this test are as follows:

$$\Delta Y_t = \gamma Y_{t-1} + \sum_{i=2}^m \beta_i \Delta Y_{t-i+1} + \varepsilon_t \quad (1)$$

$$\Delta Y_t = \alpha_0 + \gamma Y_{t-1} + \sum_{i=2}^m \beta_i \Delta Y_{t-i+1} + \varepsilon_t \quad (2)$$

$$\Delta Y = \alpha_0 + \gamma Y_{t-1} + \beta_t + \sum_{i=2}^m \beta_i \Delta Y_{t-i+1} + \varepsilon_t \quad (3)$$

Here H0 hypothesis are tested by comparing the τ value obtained in this test with the values calculated by Dicker- Fuller (Enders, 1995). Null Hypothesis shows that series is not stationary and has a unit root

($H_0 : \gamma = 0$) and alternative hypothesis shows that series is stationary.

If the absolute value of calculated τ statics is higher than the absolute value of critical values, we cannot reject the hypothesis which shows that series is stationary. However, if this value is lower than critical value, time series is not stationary (Gujarati, 1995).

DATA ANALYSIS AND HYPOTHESES TEST RESULTS

In this study, Granger causality test was applied in order to determine the presence of the relationship between two variables and its direction in Turkish economy between 2000 and 2009 fiscal years. Accordingly the model developed for economic growth (GDP) and foreign direct investment (FDI) is as follows:

$$GDP = \beta_0 + \beta_1 FDI \quad (4)$$

When the results of the test displayed in the table below are examined, it can be seen that the series belonging to GDP is not stationary in level value and it becomes stationary only when first differences are taken. Foreign direct investment and economic growth, expanded to test the stability of a series of Dickey-Fuller (ADF) test was used and the results in Table 1 are presented.

Table 1. Augmented Dickey-Fuller Test Results

MacKinnon One-Sided P-Value Null Hypothesis: GDP has a unit root			MacKinnon One-Sided P-Value Null Hypothesis: FDI has a unit root		
Augmented Dickey-Fuller test statistic	t-Statistic	Probability	Augmented Dickey-Fuller test statistic	t-Statistic	Probability
	- 3.4567	0.0775		- 7.6798	0.0000
Test Critical Values:	1% level	- 4.3478	Test Critical Values:	1% level	- 5.5367
	5% level	- 3.7837		5% level	- 4.7489
	10% level	- 2.4531		10% level	- 3.1143

Here, by applying ADF unit root test, as Mc-Kinnon critical values are greater than of 1%, 5% and 10% significance level we can conclude that there is no unit root. After testing stationary of the variables, Granger causality test was applied in order to determine the presence of the relationship among variables and its direction. The results of Granger test done between the two variables for which unit roots test is carried out displayed in the table below.

Table 2. Granger Causality Test Results

Two Time Lags Sample: 2000 - 2009			
Null Hypothesis	Observation	F-Statistic	Probability
GDP does not Granger Cause FDI	36	0.33341	0.78323
FDI does not Granger Cause GDP	36	4.32452	0.14321

According to Granger causality test done by using quarterly data between 2000 and 2009 in Turkey, economic growth (GDP) is not the cause of FDI. (0.78323, 0.14321 > 1%, 5% and 10%)
 In other words, there is no causality relationship from economic growth to FDI.
 After the test of causality, the regression equation model was estimated. A generated model with respect to the period is as follows:

Table 3. Results of regression analysis

<i>2000 – 2009 Period</i>			
Coefficients		β_0	β_1
		2943.3	0.32
Standard Deviation		1734.2	0.091
T - Value		1.3256	2.873
$R^2 = 0.723$	$D - W = 1.4012$	$F = 7.461$	

As seen in Table 3, in the regression equation analyzed, 1 unit increase in FDI approximately causes a 0,32 unit increase in GDP. In this period the explanation rate of FDI on GDP is about 72% and the parameters in the model are meaningful. Furthermore the parameters in the model are meaningful when analyzed as a whole.

CONCLUSION

In this study the direction of the relationship between economic growth rate and FDI is examined by using Granger causality test and regression analysis. According to the results of this study, there is no reciprocal causality relationship between economic growth and FDI in Turkey. The direction of causality relationship is only from FDI to growth rate and there is no causality relationship from growth rate to FDI. Consequently FDI in Turkey is one of the factors affecting economic growth. Therefore, the highness or lowness of economic growth rate doesn't have an effect on the presence of FDI. The results definitely show that large amount of FDI inflows in Turkey play a role in high growth rate observed in Turkey currently. As a result, it is necessary to continue to encourage FDI inflows so as to ensure constant economic growth in Turkey.

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SYSTEMIC RISK and HEDGE FUNDS

Nuray Terzi

Marmara University, Turkey

ABSTRACT

There is a significant rise in concerns about the financial stability in international financial systems. Systemic risk is mainly accepted as the fundamental underlying concept for the study of financial instability. There is no clear understanding of the concept of systemic risk and the linkages between systemic risk and hedge funds. This paper has attempted to define the concept of systemic risk and to analyze the relationship between systemic risk and hedge funds as the main rationale for financial system.

INTRODUCTION

Hedge funds have attracted growing attention from policy makers, financial market participants and the general public due to their rapid growth and substantial scale, their importance to banks as clients and the impact of their trading activity on global capital markets. Moreover, hedge funds improve overall liquidity and efficiency and make a wide range of risk hedges and position adjustments available to other market participants (Higashio, Terada and Shimizu; 2006;5).

However, there is a significant rise in concerns about the financial stability in international financial systems. Systemic risk is mainly accepted as the fundamental underlying concept for the study of financial instability and policymakers have raised concerns that hedge funds may contribute to systemic risk. One way this might occur is if a failing hedge fund causes the collapse of a large financial institution with direct exposure to it. Aside from causing the failure of a major counterparty, a failing hedge fund can disrupt the financial markets indirectly. As a result, there is no clear understanding of the concept of systemic risk and the linkages between systemic risk and hedge funds.

This paper has attempted to define the concept of systemic risk and to analyze the relationship between systemic risk and hedge funds as the main rationale for financial system. This article proceeds in the following manner. First, I begin with the most important characteristics of systemic risk and explain the concept of hedge fund. Second, I review the relationship between systemic risk and hedge funds. Third, I give regulatory approaches of systemic risk. Finally, I provide a conclusion.

THE CONCEPT OF SYSTEMIC RISK AND HEDGE FUND

This section focuses on the define of systemic risk and hedge funds. Systemic risk is examined in the light of the related literature. Hedge funds is also analyzed in terms of their characteristics and size in the financial system.

Systemic Risk

Systemic risk is defined in different perspectives in literature. Systemic risk can be defined in terms of integrated perspective. Integrated perspective includes both institutional systemic risk and market risk. Others define systemic risk as a systemic event. As a systemic event, systemic risk is defined as the risk of experiencing systemic events.

Schwarcz (2008;202) defines systemic risk in terms of integrated perspective. Integrated perspective includes both institutional systemic risk and market risk. Banks and other financial institutions are important sources of capital. Therefore, their failure can deprive society of capital and increase its cost. Increases in the cost of capital, or decreases in its availability, are the most serious direct consequences of a systemic failure. Systemic risk is also positively correlated with the markets. Markets can also create a systemic risk.

Bordo, Mizrahi, and Schwartz (1998;31) offer a description of a systemic event as a situation where: “*shocks to one part of the financial system lead to shocks elsewhere, in turn impinging on the stability of the real economy*” while the Counterparty Risk Management Policy Group II (2005;5) describes a financial shock with systemic consequences as one with: “*major damage to the financial system and the real economy*”. In principle, systemic

risk is defined as the risk of experiencing systemic event. The spectrum of systemic risk ranges from the second-round effect on a single institution or market to the risk of having a systemic crisis affecting most of the financial system at the upper extreme (Table 1).

Table 1. Systemic Events in Financial System

Type of initial shock	Single Systemic Events (affect only one institution or one market in the second round effect)		Wide systemic events (affect many institutions or markets in the second round effect)	
	Weak (No failure or crash)	Strong (failure of one institution or crash of one market)	Weak (No failure or crash)	Strong (failure of many institutions or crashes of many markets)
Narrow shock that propagates				
*Idiosyncratic shock	✓	✓ contagion	✓	✓ Contagion leading to a systemic crisis
*Systematic shock	✓	✓ contagion	✓	✓ Contagion leading to a systemic crisis
Wide systematic shock			✓	✓ Systemic crisis

Source : Oliver de Bandt and Philipp Hartmann, (2000).

As a systemic event, the key element in this definition of systemic risk is composed of two important elements itself, shocks and propagation mechanisms. Shocks can be idiosyncratic or systematic. In an extreme sense idiosyncratic shocks are those which affect only the health of a single financial institution or only the price of a single asset, while systematic shocks affect the whole economy, e.g. all financial institutions together at the same time. The second key element in systemic events in the narrow sense is the mechanism through which shocks propagate from one financial institution or market to the other (Bandt and Hartmann, 2000;12).

Hedge Funds

Hedge Funds have grown quickly over the past ten years, and are important part of the financial landscape. There is no legal or even generally accepted definition of a hedge fund, although the US President's Working Group on Financial Markets characterised such entities as *"any pooled investment vehicle that is privately organised, administered by professional investment managers, and not widely available to the public"* (Garbaravicius and Dierick, 2005:7).

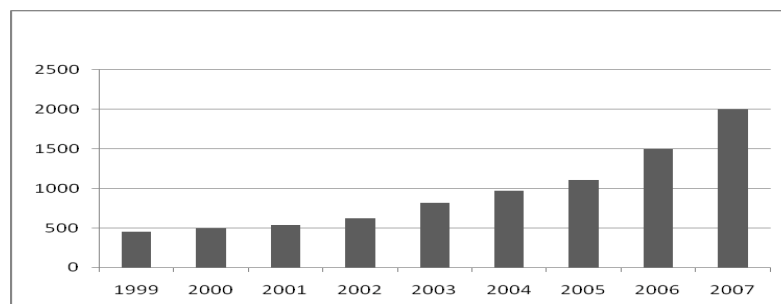
Hedge funds have three main structural features: they are private pools of capital, they pursue multiple and complex strategies and their returns are boosted by financial leverage. They undergo few restrictions in their investment strategies. They are regulated only indirectly through their prime brokers and a loose market discipline resting on the promotion of standards of good conduct (Aglietta and Rigot, 2008:2).

Extensive use of leverage and derivatives is a common feature of hedge funds. Overall, hedge funds play a key role in providing liquidity in markets where pricing anomalies have occurred, often due to lack of breadth. In the main this is a volatility reducing activity that is an essential part of the efficient working of financial markets and financial stability (Blundell-Wignall, 2007;37).

Hedge funds are moving increasingly into less liquid markets, with structured credit and distressed debt at the top of the list (Chan et al. 2006; 240). Because of their nature, hedge funds are restricted to large-scale investors. Historically, they have attracted high-net-worth individuals and institutional investors, and the array of the latter has widened significantly in recent years to include pension funds, charities, universities, endowments, and foundations (Ubide, 2006; 1).

By the end of 2007, the global hedge fund had about \$ 2 trillion in assets under management. However, because hedge funds are not required to register with any financial regulator or supervisor, these numbers can only be estimated. According to graph 1, hedge funds had less than \$ 500 billion in 1999 in assets under management, and the \$ 1.5 trillion mark was passed in 2007.

Graph.1 The Size of Hedge Funds, 1999-2007, Billion Dollar



Source: Hedge Fund Research (HFR), 2Q 2007 Industry Report.

Hedge funds are also dominant players in several markets: in 2005, by one estimate, they accounted for 89 percent of U.S. trading volume in convertible bonds, 66 percent of volume in distressed debt, 33 percent of volume in emerging market bonds and in leveraged loans, 20 percent of speculative-grade bond volume, and 38 percent of credit derivatives volume. By early 2006, their estimated share of credit derivatives trading had increased to 58 percent (Kambhu, Schuermann and Stiroh, 2007;5) As these figures suggest, hedge funds are engaged in a broader range of activity than in the past, especially in the trading of credit instruments.

Hedge funds also move fast. Estimates of hedge fund survival rates vary between 85 percent and 95 percent per year, depending on the year and the style of fund. Chan et al. (2006, 250) report that 30 percent of funds do not make it past three years, and 40 percent of funds do not survive past the fifth year. The average one-year attrition of hedge fund is less than 4 percent (Carhart et al. 2002, 1455). Gupta and Liang (2005:230) also report that nearly 90 percent of dead funds in their study were adequately capitalized at the time of closure.

THE RELATIONSHIP BETWEEN SYSTEMIC RISK AND HEDGE FUNDS

The key question from a financial stability perspective is whether hedge funds could potentially pose a systemic risk. Policy-makers and regulators have been examining both direct and indirect channels. If systemic risk is fundamentally about financial market linkages to the real economy, then hedge funds create systemic risk to the extent that they can disrupt the ability of financial intermediaries or financial markets to efficiently provide credit. A hedge fund link to the real economy might occur through banks' direct exposures to hedge funds, disruptions to capital markets that hinder credit provision or allocation, or indirect effects as bank problems feed back into the broader financial markets (Kambhu, Schuermann and Stiroh, 2007;7).

A direct channel occurs when a collapse of a hedge fund holding large positions leads to forced liquidations of those positions at fire-sale prices. The impact on asset prices may be amplified through the use of leverage. Such a disorderly unwinding could generate heavy losses to counterparties and ultimately contribute to severe financial distress at one or more systematically important financial institutions (King and Meier, 2007;6). Commercial banks and securities firms are directly linked to hedge funds through their counterparty exposures, for example, short-run financing for leveraged positions, prime brokerage activity, and trading counterparty exposures in over-the-counter and other markets. If a bank has a large exposure to a hedge fund that defaults or operates in markets where prices are falling rapidly, the bank's greater exposure to risk may reduce its ability or willingness to extend credit to worthy borrowers (Kambhu, Schuermann and Stiroh, 2007;7).

During the collapse of Long Term Capital Management (LTCM) in the autumn of 1998, 17 counterparties, mostly large banks, would collectively have lost between USD 3 and 5 billion had LTCM not been bailed out by a group of its counterparties. Many of the counterparties had direct exposure to LTCM, mostly arising from over-the-counter derivatives (Ferguson and Laster, 2007;50).

The potential market weight of hedge funds also poses indirect risks to financial market participants' asset positions. Banks are often exposed to market risks similar to those of hedge funds, especially if, in their

proprietary trading, they pursue strategies comparable to those of hedge funds. Thus, they risk sustaining marked losses in the event of abrupt market shifts in the trading segments dominated by hedge funds. This is likely to affect market segments in which a withdrawal by a few key market makers could cause market liquidity to dry up (Weber, 2007;165).

In the indirect channel, a forced hedge fund liquidation exacerbates market volatility and reduces liquidity in key markets. Thus, systemic risk occurs when correlations in asset classes increase during times of stress, or when the potential for herding amplifies market movements (King and Meier, 2007;6) Large commercial banks and broker-dealers provide substantial liquidity to the hedge fund sector by absorbing the counterparty credit exposure of trading positions, collateralizing financing, providing contingent credit lines, and making direct equity stakes. A hedge-fund-induced shock to a commercial bank could have knock-on effects if that bank or other banks reduces the provision of liquidity to other hedge funds or to other banks, and thus further disrupts financial markets and credit provision (Kambhu, Schuermann and Stiroh, 2007;9).

On the basis of these channels, policy-makers and academics have identified the following factors that might contribute to, or mitigate, systemic risk: excessive leverage, liquidity shocks, trades and herding behaviour, counterparty risk, and the state of the economy and financial balance sheets. (King and Meier, 2007;7)

One feature of hedge funds on which particular attention has now been focussed is that of leverage. Leverage can be defined in two ways: (i) balance sheet leverage, which is the ratio of assets to net worth; and (ii) as a form of risk, in which leverage is measured as economic risk relative to capital (Becker and Minicozzi, 2000;9). Leverage relates equity capital to trading exposures. When leverage is excessive, even a moderate price swing could force hedge funds to liquidate positions to meet margin calls. As hedge funds seek to sell their most liquid assets first, shocks in one market might lead to ripple effects across markets (Garbaravicius and Dierick 2005, 32). The 1998 collapse of Long-Term Capital Management provides a striking example of the impact of excessive leverage. The report of the President's Working Group on Financial identified excessive leverage as the key factor contributing to the collapse of LTCM (King and Meier, 2007;7).

Liquidity is a key concept in the debate about systemic risk. Funding liquidity refers to the ability of an investor to raise cash to meet its financial obligations. A hedge fund may have liquidity problems even though the financial markets themselves are liquid. Financial institutions go bankrupt because of funding illiquidity. Funding illiquidity occurs when an institution runs out of cash and it cannot raise additional financing, even though it may have positive equity. LTCM and Amaranth were brought down by funding illiquidity: their positions had a positive mark-to-market value, but they were unable to meet margin calls. LTCM was the victim of a market-wide liquidity shock with systemic effects. The devaluation of the Russian rouble and Russia's default in August 1998 caused a sharp reduction in market-wide liquidity, an increase in risk aversion, and a flight to quality. Bond-trading desks and investors sold high-risk, illiquid securities and bought low-risk, liquid securities. The high degree of leverage employed by LTCM amplified its losses. Amaranth Advisors LLC was the victim of funding illiquidity that was specific to its trading strategy. An unexpected fall in the price of natural gas futures for delivery over the winter caused Amaranth to lose more than \$2 billion. When Amaranth could not meet its margin requirements, its positions were sold at fire-sale prices. While volatility in the natural gas market increased, other markets were relatively unaffected (King and Meier, 2007;8).

Reductions in market liquidity and increased volatility can transform a financial disturbance to a financial shock, if many participants hold similar or closely correlated positions (herding). (King and Meier, 2007;9) Evidence on hedge fund herding is mixed. Studies suggest that herding occurred during the 1992 exchange rate mechanism crisis, while studies of the 1997 Asian crisis indicate that hedge funds provided liquidity and took opposing positions in many markets, reducing volatility and mitigating the fall in asset prices. (Danielsson, Taylor, and Zigrand 2005;530).

One way to prevent a financial disturbance from becoming a financial shock is through adequate counterparty risk-management practices, which reduce the exposure of a financial intermediary in the event of default of its counterparties (King and Meier, 2007;9). Counterparty risk management systems are the first line of defense between unregulated hedge funds and regulated financial institutions. Counterparty risk management practices are designed to reduce counterparty credit risk in leveraged trading by providing a buffer against increased exposure to the dealer providing the financing or derivatives contract. This reduction in settlement risk in leveraged trading increases confidence and thereby promotes active financing of leveraged trading (Kambhu, Schuermann and Stiroh, 2007; 3) After the LTCM episode, risk managers at banks and securities houses formed the counterparty risk management policy group, which developed recommendations and diligently implemented them (Ferguson and Laster, 2007;52).

The ability of counterparties and other market participants to weather a financial disturbance or shock depends on the state of the economy and their balance sheets. The collapse of LTCM in 1998 followed a prolonged period of difficult economic and financial conditions, due to the Asian crisis and the Russian default. This period witnessed declining profits and a reduction of credit as lenders became more risk averse. By contrast, the collapse of Amaranth in 2006 occurred during benign economic and financial conditions. The risk of a systemic shock from the hedge fund sector is therefore greater when economic and financial conditions are worse (King and Meier, 2007;10).

REGULATORY APPROCHES

Identifying regulatory approaches is important to reduce the systemic risk. Regulatory approaches in systemic risk is classified into two groups: historical approaches and future approaches.

Historically, regulation of systemic risk has focused largely on preventing bank failure. For example, an insurance corporation is intended to prevent bank runs by alleviating fear that banks will default on deposit accounts. Also, capital adequacy requires banks to hold minimum levels of capital, a requirement intended to limit excessive risk taking and buffer against financial crisis. However, some economists argue that rules preventing bank failure can cause moral hazard. Banks may increase risk exposures and reduce their capital ratios, knowing that the safety net will protect against sudden runs. In addition, capital requirements can be imperfect. Constraining lending activities of banks can redirect funds to lenders whose constraints are not binding. Capital requirements also are said to undercut the ability of banks to build equity value (Schwartz, 2008; 211).

Future approaches is based on different concepts, such as averting panics, disclosure, financial exposure limits, reducing leverage, ensuring liquidity, ad hoc approaches, market discipline. Some of future approaches reduce the risk of systemic collapse, others mitigate the spread and consequences of systemic collapse.

Averting panics regulatory approach aims to eliminate the risk of systemic collapse. This goal could be achieved by preventing financial panics, since they are often the triggers that commence a chain of failures. Imposing regulation to help avert panics can facilitate the goal of stability. Regulation might place conditions on closing capital markets and provide liquidity to keep them open, thereby obviating the vicious cycle that would be triggered if one or more such markets stopped functioning (Schwartz, 2008;214).

Another potential approach is disclosure. Inadequate disclosure and transparency are to a very large extent rooted in the largely unregulated nature of hedge funds (Garbaravicius and Dierick, 2005:51). Disclosing risks traditionally has been viewed as the primary market-regulatory mechanism at least under U.S. securities laws. It works by reducing asymmetric information among market players, making the risks transparent to all. It therefore might seem that financial panics would be minimized in a world of perfect disclosure because investors would price-in all risks (Schwartz, 2008;218).

Another possible approach is financial exposure limits. Financial exposure limits would facilitate stability by diversifying risk, in effect by reducing the losses of any given contractual counterparty and thus the likelihood that such losses would cause the counterparty to fail. Such limits also might reduce the urgency, and hence the panic, that contractual counterparties feel about closing out their positions. This approach already applies to banks through lending limits, which restrict the amount of bank exposure to any given customer's risk (Schwartz, 2008; 222).

One problem that seems to be common among the financial risks associated with hedge funds is excess leverage. An un-leveraged hedge fund poses a risk only to investors, who can lose their invested capital. An un-leveraged hedge fund may not be practical for many funds, though, because leveraging can be an effective way to capitalize on interest-rate arbitrage. However, the more a fund is leveraged, the more volatile the risk becomes. Excessive leverage is a problem not only to hedge fund investors, but to banks as well, since the banks risk losing the credit they have extended if a hedge fund cannot pay (Brook, 2007:238). Reducing leverage is relevant to systemic risk insofar as it reduces the risk that a financial entity fails in the first place and also reduces the likelihood "that problems at one financial institution could be transmitted to other institutions. This approach is intended to reduce the risk and mitigate the spread and consequences of systemic collapse. Reducing leverage would also strongly facilitate the goal of stability (Schwartz, 2008; 223).

Liquidity is a problem for investors due in part to the investment styles of hedge funds. For instance, a spread arbitrage would fail, if investors withdrew funds prior to the contraction and during a margin call. Likewise, distressed debt investments require substantial time for returns to materialize given the slow nature of the bankruptcy process. Conversely, the same bankruptcy process also creates inefficiencies in the market and the subsequent premiums for investors. Liquidity could easily be resolved by creating a secondary over the counter market for tradable hedge fund securities (Cheng, 2002, 4). Ensuring liquidity could facilitate stability in two ways: by providing liquidity to prevent financial entities from defaulting, and by providing liquidity to capital markets as necessary to keep them functioning. There are at least two possible regulatory ways to ensure liquidity: creating a lender/market-maker of last resort, and imposing entity-level liquidity requirements (Schwartz, 2008; 225).

Ad hoc approaches can help to minimize the difficulties in measuring, and balancing, costs and benefits. The extent to which ad hoc regulatory responses to systemic risk facilitate stability. Furthermore, ad hoc approaches reduce moral-hazard cost (Schwartz, 2008; 230).

Market-imposed regulation is efficient insofar as it minimizes regulatory costs. Under a market discipline approach, the regulator's job is to ensure that market participants exercise the type of diligence that enables the market to work efficiently. This is often achieved by ensuring that market participants have access to adequate information about risks and by arranging incentives so those who influence an institution's behavior will suffer if that behavior generates losses (Schwartz, 2008; 231). In a market economy, strengthening market discipline is a natural approach to containing potential risk to financial stability resulting from the failure, or the collective behaviour, of hedge funds. Market imperfections such as incentive problems, market clout and information asymmetries may, however, weaken the market's ability to discipline the managers of hedge funds. An appropriate degree of transparency is an essential requirement for market discipline to be effective. Transparency helps the market players to make more efficient decisions because it improves the quality of information and reduces uncertainty (Weber, 2007; 166).

CONCLUSION

Systemic risk in one country inevitably will affect markets and institutions in other countries as finance and markets are globally interconnected. In addition, studies state that hedge funds can potentially pose a systemic risk in two ways; direct and indirectly. To mitigate the systemic risk, regulatory approaches can be used if they are appropriate. Regulatory solutions are universal or should be different for different countries. However, hedge funds play an important role in financial markets by providing liquidity and lowering volatility. They contribute to the elimination of market inefficiencies, and offer diversification benefits to investors. Moreover, their activities have contributed to the integration of financial markets. Therefore, the regulations about hedge funds shouldn't prevent hedge funds movements in a market place.

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PRICE TRANSMISSION AND THE GLOBALIZATION OF STOCK MARKETS: EVIDENCE FROM FIVE COUNTRIES

Rui Menezes
ISCTE Business School, Portugal

ABSTRACT

This paper analyzes the stock market globalization on the basis of the price theory and the Law of One Price. This leads to the concept of market integration which, under the nonstationarity of price level variables, can be empirically tested by using cointegration techniques. An error correction model incorporating prices and returns is specified and empirically tested. The results show that the five stock markets under analysis are cointegrated and there is just one cointegrating vector that rules the long-run relationship between these markets. The Portuguese and Spanish stock markets are weakly exogenous while the remaining are endogenous in the context of our system. Market integration in the sense of the Law of One Price holds for the system as a whole but full price transmission is only accepted for the pairs Portugal-UK, UK-Japan and Japan-US, for which one can say that the Law of One Price also holds. The results, therefore, show that price movements between pairwise stock markets are highly nonlinear and complex.

INTRODUCTION

The contemporary world is dominated by the idea of globalization and there is evidence on this in many aspects of our lives. In some way, it seems clear that the world became much more interrelated and even much more uniform than it was in the past not so far. Of course, there still remain important exceptions but if we look at the western world we can see that differences between countries and markets are progressively mitigated.

Several studies conducted in the field of economics have shown that markets are nowadays much more integrated than they were in the past, both at the horizontal and vertical levels [1]. This is true, at least in Western Europe, for some commodity markets but it also seems to be applied to financial markets. How can we extend this notion to the stock markets? Many authors have studied the process of globalization of international stock markets and, invariably, they point to the conclusion that stock markets are highly “globalized” [2, 3, 4, 5, 6, 7]. This is intuitively appealing since it is well known that shocks occurred in major markets such as, for instance, the NYSE have a strong impact on the behavior of worldwide stock markets. However, it is quite surprising that many studies do not in general rely on a concrete definition of market globalization. They basically assess stock market globalization by observing the extent of correlation between markets but no theory lies behind these empirical tests [8, 9].

Bearing these caveats in mind, this paper analyses the process of stock market globalization on the basis of a theoretical framework derived from the price theory. A precise definition of market globalization based on the Law of One Price leads to a dynamic model specification where the long-run and the short-run effects can be clearly separated. This error correction mechanism uses daily prices and price changes for five stock market indexes over a period of ten years. The model specification is quite flexible and allows for different impacts of price and return movements across markets. For example, a change in the US market, the dominant market, may be transmitted in quite different manners to the remaining markets, in which case it is difficult to conclude that markets tend to uniformity. The process of market globalization is a complex one, and the nonlinear transmission of price movements may obscure the general idea of stock market globalization [10, 11].

Stock prices and returns are preferable to use in this context than just stock returns since the former retain the long-run information contained in the original data while the latter only capture the short-run information. However, some technical problems arise in this context because the nonstationary nature of price data may lead to spurious relationships. These problems are overcome if the price series are cointegrated in which case the error correction model provides an appropriate representation of the whole system [12, 13]. Additionally, formal tests both of proportionality and weak exogeneity can be performed on the basis of the error correction model. The former leads to tests of full linear price transmission. The latter allows one to test for market leadership.

GLOBALIZATION, MARKET INTEGRATION AND THE LAW OF ONE PRICE

Empirical analyses of market integration often rely on price data to inquire the extent and shape of asset price co-movements over time. The theoretical framework for many of these studies is based upon the price theory as well as precise definitions of market and market integration. A market can be defined as “the area within which the price of an asset tends to uniformity after allowing for different transportation costs” [14] or “differences in quality, marketing, etc” [15]. This definition relates the price evolution in the long-run, although deviations may occur in the short-run. It is, therefore, an equilibrium relationship or long-run trend. On the basis of this kind of relationship it is possible to test for correlation, causality or proportionality in order to verify the extent of market integration [16, 17]. Market integration, on the other hand, is one way to analyze the process of globalization, in particular economic globalization, which can be defined as the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, the spread of technology, and so on.

If the definition of market based on the relationship between prices is straightforward to understand and model, the empirical estimation of such models can be complicated by technical problems whose resolution is far from trivial. Such difficulties arise because the vast majority of price series present a property that may result into spurious regressions if not appropriately accounted for: stochastic nonstationarity. As we shall see, this problem is overcome if the price series under analysis are cointegrated; however, if they are not, the results obtained from regressing nonstationary prices suffer from severe biases and the usual test statistics are no longer valid [18]. Of course, in the latter case and if the price variables are integrated of first order, one can always estimate a regression model based on the first price differences, that is, the price changes or returns, but then all the long-run information contained in the original price series is removed. In this case, regression tests of market integration based on the price theory (and thus economic globalization) cannot be carried out.

The market definition presented above incorporates one element that is crucial in our context, the issue of price uniformity, and it is precisely this issue that leads to the idea of market integration. Indeed, the markets for an asset or asset group are said to be integrated if the underlying prices move proportionally over time, that is, if the Law of One Price (LOP) holds. As noticed before, differences may occur due to different transportation costs, marketing costs, quality, and so on. This implies that, not only prices must be cointegrated (if nonstationary) but they must also be proportional over time. This law, described by Cassel [19] and other prominent economists such as Cournot and Marshall, can be regarded as a particular case of the following ADL(p, q) price relationship:

$$x_{1t} = \theta + \sum_{k=1}^p \rho_k x_{1,t-k} + \sum_{j=0}^q \beta_j x_{2,t-j} + v_t, \quad (1)$$

where x_{it} ($i = 1, 2$) denotes the relative prices (measured in logs) of asset i at time t , ρ_k captures the extent of autocorrelation in x_{1t} , β_j measures the relationship between prices (in levels and lags) and v_t is a white noise perturbation. A generalization of this relationship to more than two price variables is fairly trivial.

One can say that x_{2t} causes x_{1t} if the null hypothesis that all parameters β_j are simultaneously zero is rejected; notice that the relationship can be bidirectional. If there is just one unidirectional causal relationship, then one of the markets can effectively influence the other market prices, but the reverse is not true. If the null hypothesis is not rejected in both cases, then there is no causal relationship between the underlying prices and one can say that they do not belong to the same market space.

A test of the LOP based on (1) can be set up from the restriction:

$$\sum_{k=1}^p \rho_k + \sum_{j=0}^q \beta_j = 1, \quad (2)$$

where, under the null, one says that there is long-run market integration. If $\beta_0 = 1 \wedge \beta_j = \rho_k = 0, \forall k, j > 0$, there occurs instantaneous market integration and expression (1) reduces to a static or contemporaneous model with no lagged effects [20, 21].

If the null hypotheses of no causal relationship and market integration are rejected, the variables are nonlinearly related and the sum of ρ_k and β_j captures the degree of nonlinearity between them. It is important to note that (1)

comes out from a multiplicative model of the original (no logarithmic) price variables and, under the estimated solution of the model, the price function is homogeneous where $m^{\Sigma \rho + \Sigma \beta}$ is the multiplicative factor of $\exp(x_{1t})$ when $\exp(x_{2t})$ is multiplied by m .

The $\exp(\theta)$ parameter measures the intertemporal relationship between prices and is, in our case, a constant. It has a direct economic interpretation when there is market integration and the LOP holds. In the case of the estimated static model, if $\theta = 0$, prices are alike. If $\theta \neq 0$, prices move proportionally but may differ due to different transportation costs, quality, etc. The first case is known as the strong version of the LOP and the second case is the corresponding weak version [22].

Although the LOP has been mainly used in studies of market integration for food products and other commodities, it provides an adequate framework for studying financial market integration as well, in particular studies involving stock market comparisons as is our case. In finance, the LOP is frequently described in the context of the Arbitrage Pricing Theory [23] in terms of price equality independently of the means used to create the underlying asset and it can be said that the LOP and the Purchasing Power Parity (PPP) are equivalent concepts. In particular, the notion of absolute PPP is equivalent to the strong version of the LOP whereas the relative PPP is equivalent to the weak version of the LOP.

Under the PPP conditions, model (1) can be estimated using data converted to the same currency. In our case all data were converted to Euros. As noticed before, if all lagged relationships are non-significant we have the following long-run equilibrium model (attractor):

$$v_t = x_{1t} - \theta - \beta_0 x_{2t}. \quad (3)$$

A test of the LOP using (3) can be carried out under the null hypothesis that $\beta = (1, -\theta, -1)$, where β is the vector of right-hand side parameter estimates of the model, normalized to x_{1t} and β_0 is the elasticity of price transmission. Recall that if $\theta \neq 0$, the weak version of the LOP holds; otherwise one faces the strong version of the LOP.

NONSTATIONARITY AND COINTEGRATION

Estimation of (3) is straightforward if the variables in the model are stationary and there is no residual autocorrelation, since the OLS estimates converge asymptotically to the true values of the parameters. In the latter case the problem is overcome using an adequate ADL specification such as (1). However, in the case of nonstationary variables, the solution is not as simple as that. It is, therefore, important to know the stationarity properties of x_{it} before proceeding to the estimation of any regression model linking them. In general, a stochastic time series is said to be strictly stationary if its joint probability distribution is invariant over time. This means that one needs to analyze all the moments of the joint probability distribution which is impossible or, at least, cumbersome in many cases. Alternatively, the second order properties of the distribution are a sufficient characterization of the joint probability distribution in the case of the multivariate normal distribution. Stationarity of x_{it} under these conditions is known as weak (or covariance) stationarity, where:

$$\begin{aligned} E(x_{it}) &= \mu & \forall t = 1, K, T \\ Cov(x_{it}, x_{i,t-k}) &= \gamma_k & \forall t = 1, K, T \wedge k = 0, 1, 2, K \end{aligned} \quad (4)$$

There are two basic cases where one can say that a time series exhibits nonstationarity: (1) the trend stationary process (TSP) and (2) the difference stationary process (DSP). If the process is a TSP, the nonstationary component can be explicitly modeled by a deterministic term of the type $\mu_0 + \mu_1 t$ (or any other deterministic function of time), where μ_0 and μ_1 are parameters and t measures time. On the other hand, if it is a DSP, stationarity can only be induced by differencing the original time series as much as required to obtain stationarity. The random walk and the random walk with drift belong to this latter class of stochastic models. In practice, however, it is quite common to find situations where a process combines both types of nonstationarity.

Stochastic nonstationarity can be examined on the basis of unit root tests, of which the most popular is the Augmented Dickey-Fuller or ADF test [24, 25]. The ADF test, also known as τ test, is based on the following regression model:

$$\Delta x_{it} = \mu_0 + \mu_1 t + (\rho - 1)x_{i,t-1} + \sum_{k=1}^p \gamma_k \Delta x_{i,t-k} + \varepsilon_t, \quad (5)$$

where μ_0 is a constant term, $\mu_1 t$ is a linear deterministic trend in the data, $(\rho - 1)x_{i,t-1}$ denotes the corresponding stochastic trend and the residuals $\varepsilon_t \sim \text{iid}(0, \sigma_\varepsilon^2)$. The symbol Δ denotes a first difference, as usual, and the summation term captures any autocorrelation of the left-hand side variable. Taking $\mu_1 = \gamma_k = 0$, the ADF equation reduces to an AR(1) process. The null hypothesis in the ADF test is $\rho = 1$, using for the effect the MacKinnon [26, 27] critical values.

The distribution of the ADF test under the null hypothesis is given by [28]:

$$t_{\rho} \underset{(H_0)}{\sim} \frac{W^2(1) - 1}{2\sqrt{\int_0^1 W^2(s) ds}}, \quad (6)$$

where $W(s)$ represents a Brownian Motion over $[0, 1]$. Under the null hypothesis the variable is nonstationary, *i.e.*, it contains a stochastic trend. The alternative hypothesis postulates that $|\rho| < 1$ under which the variable is stationary. In fact, under the alternative hypothesis the time series is a stationary AR($p+1$) process with or without deterministic terms.

Despite their popularity, the ADF tests suffer from low power problems when the process is stationary with roots close to one [29]. Additionally, some unit root processes behave more like a white noise than like a random walk in finite samples. For this reason, it is convenient to use alternative tests in order to conclude more accurately about the stationary nature of the series under analysis. An alternative to the ADF test is the KPSS [30], which postulates as the null hypothesis that the time series is trend stationary, against the alternative that it contains a stochastic trend. Many other unit root or stationarity tests have been proposed in the literature (see, *e.g.*, Phillips-Perron - PP [31], Elliott, Rothenberg and Stock - Point Optimal [32], Elliott, Rothenberg and Stock - DFGLS [32], Ng and Perron - NP [33]). For the purposes of this paper, however, the ADF and the KPSS tests will suffice.

The data generation process of the KPSS test is given by:

$$\begin{aligned} x_{it} &= \mu t + z_t + u_t \\ z_t &= z_{t-1} + \varepsilon_t \end{aligned}, \quad (7)$$

where x_{it} is the sum of a deterministic trend (μt), a random walk (z_t) and a stationary residual variable (u_t) and where $\varepsilon_t \sim \text{iid}(0, \sigma_\varepsilon^2)$. The null hypothesis of stationarity is given by $\sigma_\varepsilon^2 = 0$, where the initial value z_0 is a constant. Given that u_t is a stationary residual variable, then x_{it} is a TSP. Indeed, given the null hypothesis $\sigma_\varepsilon^2 = 0$, the residuals ε_t must all be zero and, therefore, $z_t = z_{t-1}, \forall t$, which is a constant. Thus, under the null hypothesis, the first equation in (7) represents a trend stationary process. The test statistic of the KPSS is a Lagrange Multiplier where the numerator is the sum of squared residuals obtained from regressing x_{it} on a constant and a deterministic trend and the denominator is an estimator of the variance of the residuals u_t .

Most economic and financial time series that are stochastically nonstationary are also integrated of first order, that is, differencing once is enough to achieve stationarity. It is the case of the vast majority of stock market price series and indexes. Suppose, for instance, that one is interested in the long-run properties that rule the relationship between two or more first-order integrated price series. In this case, one needs to focus the analysis on the variables measured in levels. However, a linear combination of first-order integrated variables usually generates a residual variable that is also first-order integrated. Under these circumstances, the usual t and F tests carried out on the OLS estimates do not follow, respectively, the t and F distributions and are, thus, meaningless [34]. What the model is most possibly capturing is a common stochastic trend between the variables in levels and not a causal relationship as required. Additionally, the residuals are strongly autocorrelated and the Durbin-Watson statistic converges to zero. Thus, the time series being analyzed are not related in the long-run although they may be related in the short-run, as is the case of the relationship between two random walks.

The random walk process is deeply rooted in the financial literature, in particular in what refers to stock markets. This model is on the basis of the Efficient Market Hypothesis developed by Fama [35, 36] and Fama and French

[37, 38, 39]. The basic idea underlying this theory is that returns (or price changes) can be adequately represented by non predictable fluctuations around a certain mean return, that is, the returns distribution at time t is uncorrelated with (and possibly independent of) the returns distribution at any other moment in time. Under these circumstances, the residuals are white noise and no investor can make abnormal profits from any type of speculative activity; that is, the best prediction for the price of an asset today is the price it had yesterday.

Albeit in general a linear combination of nonstationary variables generates residuals that are also nonstationary, there is a special case where the residuals thus obtained are stationary. This is the case when the variables in the model are said to be cointegrated [12]. In this case, the OLS estimator of β_0 in (3) is super-consistent, converging to its actual value more quickly than if the variables were stationary [40]. Under these circumstances, the usual t and F statistics remain valid for testing hypothesis about the parameters. One simple way to test for cointegration is to regress x_{it} on x_{jt} ($i \neq j$) and then analyze whether the resulting residuals are stationary. Note that if the variables are cointegrated then $\beta_0 \neq 0$ and the cointegration test can be interpreted in terms of market integration. However, which variable should be considered as endogenous and which should be considered as exogenous? Isn't it possible that they are both endogenous and thus exert a mutual influence? In this case biases may occur due to endogeneity [41] and a multi-equation model would be preferable to use instead of the single equation model given in (3). Furthermore, since the dynamic terms are omitted in model (3), one would expect that the residuals v_t are autocorrelated.

An alternative to the single equation models presented in (1) and (3) is based on the specification of a Vector Autoregression (VAR) of the type:

$$\mathbf{x}_t = \sum_{k=1}^p \mathbf{A}_k \mathbf{x}_{t-k} + \boldsymbol{\mu} + \boldsymbol{\varepsilon}_t, \quad (8)$$

where \mathbf{x}_t is an i -dimension vector of nonstationary endogenous variables, given in levels, and representing, for instance, the natural logarithms of relative asset prices (*e.g.*, stock indexes). The \mathbf{A}_k denote p i -order matrices of parameters where each of them is associated with an i -dimension vector of lagged endogenous variables up to order p , $\boldsymbol{\mu}$ is an i -dimension vector of constants and $\boldsymbol{\varepsilon}_t$ denotes an i -dimension vector of residuals where $\boldsymbol{\varepsilon}_t \sim \text{iid}(\mathbf{0}, \boldsymbol{\Omega})$. The covariance matrix $\boldsymbol{\Omega}$ is definite positive and the residuals $\boldsymbol{\varepsilon}_t$ are not serially correlated since the dynamic process linking the data is explicitly specified in the model, although they may be contemporaneously correlated.

The VAR system given in (8) can be represented in the Error Correction form [42], known in the literature as the Vector Error Correction (VEC) model and given by:

$$\Delta \mathbf{x}_t = \boldsymbol{\Pi} \mathbf{x}_{t-1} + \sum_{k=1}^{p-1} \boldsymbol{\Gamma}_k \Delta \mathbf{x}_{t-k} + \boldsymbol{\mu} + \boldsymbol{\varepsilon}_t, \quad (9)$$

where $\boldsymbol{\Pi} = \sum_{k=1}^p \mathbf{A}_k - \mathbf{I}$ and $\boldsymbol{\Gamma}_k = -\sum_{j=k+1}^p \mathbf{A}_j$. The remaining symbols are as previously defined. This system specification contains information about the short-run and the long-run adjustment parameters through the estimates $\hat{\boldsymbol{\Gamma}}_k$ and $\hat{\boldsymbol{\Pi}}$, respectively.

The possibility of using the VEC model in the context of cointegration is guaranteed by what is known in the literature as the *Granger Representation Theorem*, which states that “if there exists a dynamic linear model with stationary perturbations and the data are first-order integrated, then the variables are cointegrated of order $\text{CI}(1, 1)$ ”. A generalization of this statement says that “if there exists a $\boldsymbol{\beta}$ matrix such that the residuals generated by regressing the data are $\text{I}(d-b)$, being the data $\text{I}(d)$, with $d \geq b$, then the variables are cointegrated of order $\text{CI}(d, b)$ ”.

If $\mathbf{x}_t \sim \text{I}(1)$, then $\Delta \mathbf{x}_t \sim \text{I}(0)$ and $\boldsymbol{\Gamma}_k \Delta \mathbf{x}_{t-k} \sim \text{I}(0)$. The term $\boldsymbol{\Pi} \mathbf{x}_{t-1}$ is a linear combination of $\text{I}(1)$ variables which in turn is $\text{I}(0)$ under the assumption of cointegration. Matrix $\boldsymbol{\Pi}$ can be factorized as $\boldsymbol{\Pi} = \boldsymbol{\alpha} \boldsymbol{\beta}'$, where $\boldsymbol{\alpha}$ represents the speed of adjustment to equilibrium and $\boldsymbol{\beta}$ is the matrix of long-run coefficients, that is, the cointegrating vectors. This is true when there are r cointegrating vectors (with $0 < r < i$) representing the error correction mechanism in the VEC system. Once obtained the cointegrating relationships and the matrices $\boldsymbol{\alpha}$ and $\boldsymbol{\beta}$ are estimated, the VEC can be fully estimated incorporating those vectors.

The VEC model represented in (9) can be interpreted as a relationship between prices and returns in a given market. What it says is that the current returns or price changes are a linear function of previous returns or price changes and historical prices. Such historical prices form a long-run or equilibrium relationship, where the involved variables co-move over time independently of the existence of stochastic trends in each of them, so that their difference is stable. The long-run residuals measure the distance of the system to equilibrium at each moment t , which may be due to the impossibility of the economic agents to adjust instantaneously to new information or to the short-run dynamics also present in the data. There is, therefore, a whole complex adjustment process involving short-run and long-run dynamics when the variables are cointegrated.

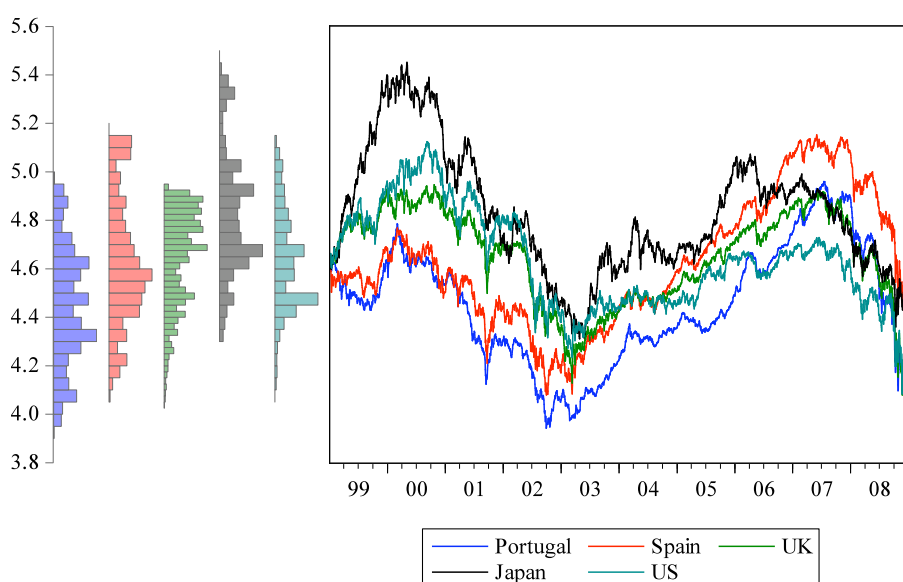
For a set of variables to be cointegrated is necessary that there is at least one cointegrating vector in the system. However, the matrix Π cannot be regular since in this case all vectors contained in Π are linearly independent. Thus, if $r = i$, \mathbf{x}_t is a vector of stationary variables. If $r = 0$, then $\Pi = \mathbf{0}$ and the variables in \mathbf{x}_t are not cointegrated since there is none cointegrating vector or a long-run relationship linking the variables in levels. In this case, current returns or price changes are only a function of previous returns or price changes; prices play no role in the overall system and long-run predictions cannot be made. Finally, cointegration exists when $0 < r < i$ where r is the rank of Π and indicates how many long-run relationships exist in the system.

Johansen [43, 44] proposed two tests for the null hypothesis that the cointegrating rank is, at most, r (less than i): the trace test and the maximum eigenvalue test. In the former, the alternative hypothesis postulates that the rank is i and, in the latter H_1 postulates that the rank is $r+1$. This method is adequate to resolve the above mentioned problem of endogeneity bias, since no prior assumption has to be made about the exogeneity of any variable in \mathbf{x}_t [43, 44, 45]. Additionally, Gonzalo [46] concluded that the Johansen tests are more powerful than the former single equation Engle-Granger tests.

DATA AND RESULTS

The data set used in our empirical modeling consists of five daily stock price series representing several markets in the world: Portugal, Spain, UK, Japan and US. The data are the natural logarithms of the relative indexes for these markets, where the base 100 was set at January, 4th 1999. All the series were converted to Euros using the adequate exchange rates. The series were collected in the Datastream database and cover the period from January, 4th 1999 to January, 21st 2009, with a total of 2623 daily observations (five days per week). Exhibit 1 shows a graphical representation of the five series in log levels over the period analyzed:

EXHIBIT 1. TIME SERIES OF FIVE STOCK MARKET INDEXES IN LOG-LEVELS



Source: Datastream

These five markets were chosen in order to have a representation of some worldwide leading economies (US, UK and Japan) and also some smaller and apparently more dependent economies but with moderately mature stock markets (Spain and Portugal). It is remarkable how similar the graphical behavior looks over time for these

five stock market indexes, although one should note some differences in the shape of the histograms presented on the left hand-side of the graphic. The series, roughly, exhibit two local maxima, one around 2000 and the other in 2007, and two local minima, one in 2002/03 and the other in 2008/09, the latter corresponding to the recent financial crisis. Substantial variation occurs within the period analyzed. Notice that all series are flatter than the Gaussian distribution and slightly skewed, therefore the J-B test statistic rejects the null hypothesis of normality for all of them. This is typical of stock market price series as well as leptokurtosis and fat tails is usually observed in returns data. In the next step, one should look at the stationarity nature of the series under analysis.

Unit root and stationarity tests in levels and in first differences for all the series were carried on and the results (not reported here) show that all series are $I(1)$ at the 1% level. Therefore, the analysis of stock market integration has to be conducted in the environment of cointegration and the method of Johansen will be used. Recall that the Johansen cointegration tests are more powerful than the EG tests under the assumption of endogeneity of the system variables. In this study there is no prior reason to assume exogeneity of any variable, and this property can be tested on the basis of the VEC estimates. The Johansen test statistics are presented in Table 1:

TABLE 1. JOHANSEN COINTEGRATION TESTS

Rank	Eigenvalue	Trace Statistic ^a	Max. Eigenvalue Statistic ^a
$r = 0$	0.016963	95.07805 *	44.73770 **
$r \leq 1$	0.008803	50.34035	23.12232
$r \leq 2$	0.007378	27.21803	19.36479
$r \leq 3$	0.002557	7.853236	6.695686
$r \leq 4$	0.000443	1.157550	1.157550

Notes: ^a MacKinnon-Haug-Michelis [48] p -values. Exogenous terms in CE: constant and linear deterministic trend. 7 lags in the endogenous variables. 2615 observations. ** significant at 1%. * significant at 5%.

The results indicate that there is one cointegrating vector since the null hypothesis that $r = 0$ is rejected at 1% in the maximum eigenvalue test and at 5% in the trace test but the null $r \leq 1$ is not rejected at standard levels. Autocorrelation was controlled for while computing the trace and maximum eigenvalue test statistics. To this end a dynamic VEC specification with seven lags was employed. A Portmanteau test for the null hypothesis of no residual autocorrelation up to lag p does not reject the null for $p = 8$ (the Q-Stat. is 34.153 with a p -value of 0.1047, $df = 25$).

The finding of just one cointegrating vector is consistent with the idea that there is only one single long-run mechanism that governs the relationships between stock markets around the world. This is in line with the idea of stock market globalization, although pairwise relationships may vary greatly across markets. In fact, these results show that the first condition for testing market integration on the light of the LOP is satisfied. The second condition, *i.e.*, proportionality or full price transmission will be analyzed below. For the moment, however, it is sufficient to know that the five stock markets under analysis do appear to belong to the same market space over the period analyzed. On the light of the above cointegration tests and under the Granger Representation Theorem it is possible to specify a VEC model with the guarantee that the residuals are stationary as required for inference purposes. Under these circumstances, the parameter estimates can be computed as usual and the t and F statistics can be used for testing purposes in the same way as in the case of a stationary OLS or ML model. The VEC model allows for testing parameter restrictions on the Π -matrix vectors α and β that contain the long-run system information. A test of the null of $\square_{i1} = 0$ allows for assessing whether the dependent variable in row i of the system is exogenous. If the null hypothesis is rejected one says that the underlying variable is endogenous. The results for this test, along with the α estimates and the corresponding standard errors, are displayed in Table 2. The test $H_0: \square_{i1} = 0$ follows a χ^2 distribution with one degree of freedom.

TABLE 2. WEAK EXOGENEITY TESTS FOR MULTIVARIATE SYSTEMS

Variable	$\chi^2(1)$	p -value	α	Std. error
Portugal	2.007758	0.156496	-0.004062	0.00234
Spain	0.219459	0.639453	0.001647	0.00294
UK	4.082357	0.043333	-0.007065	0.00306 *
Japan	16.28954	0.000054	-0.016888	0.00339 **
US	3.706678	0.054195	-0.009506	0.00368 *

Notes: $H_0: \square_{i1} = 0$. Exogenous terms in CE: constant and linear deterministic trend. 7 lags in the endogenous variables. 2615 observations. ** significant at 1%. * significant at 5%.

The results show that, in the five country system, the smallest economies (Portugal and Spain) are weakly exogenous while the biggest ones (UK, Japan and US) are endogenous. Endogeneity appears to be stronger in the case of Japan ($p < 0.01$) than in the case of UK ($p = 0.0433$) and US ($p = 0.0542$), (results not reported here).

The interpretation of the weak exogeneity results for Portugal and Spain should be made with some caution since it does not exactly mean that these markets are not influenced by shocks that occur in other markets. Indeed, the Granger causality tests for Portugal indicate that the null that i does not Granger cause j , where j represents Portugal, is rejected at 1% for the UK and the US and at 5% for Japan. With regard to Spain, the null hypothesis is rejected at 1% for Portugal and the US and at 5% for the UK. Thus, since the weak exogeneity tests are carried out on the α coefficients, which measure the speed of adjustment to long-run equilibrium, the results in Table 2 are only saying that Portugal and Spain do not react in the long-run to shocks occurred in the system, although substantial adjustment will occur in the short-run given major shocks that may hit the stock markets in the system.

From the above mentioned results it appears that there is a group of major countries (UK, Japan and US) whose stock markets react to shocks both in the long-run and in the short-run, thus adjusting to re-attain equilibrium, and there is another group of smaller countries (Portugal and Spain) that only react to shocks in the short-run. That is, the former react to price and returns changes while the latter only react to returns changes. Altogether, there is a significant influence of all these markets in the global system. In the case of the UK, the adjustment speed is about 0.7% per working day, thus taking about 6.4 months to re-attain long-run equilibrium. The US adjusts faster to shocks in the system: 1% per each working day or about 4.8 months to re-attain long-run equilibrium. Finally, Japan exhibits the fastest adjustment speed of all of them: 1.7% per working day or about 2.7 months to re-attain long-run equilibrium.

One may now proceed to the analysis of proportionality between market prices and returns in order to investigate whether the LOP holds for the system as a whole and/or for some of these markets bilaterally. The first step considers the VAR estimates of the five country system in order to investigate whether there is long-run market integration. This test utilizes the sum of the VAR estimates for each equation in the system as described in Section 2 (see model 2), where the null hypothesis is $H_0: \sum_{h=1}^p a_{ih} = 1$ ($a_{ih} \in \mathbf{A}_k$, $k = 1, \dots, p$). The results are presented in Table 3:

TABLE 3. LONG-RUN MARKET INTEGRATION TESTS FOR MULTIVARIATE SYSTEMS

Variable	$\sum a_{ih}$	Std. error	β	Std. error	
Portugal	0.999066	0.96230	1.00000	-	
Spain	0.995712	1.21343	-1.861809	0.18025	**
UK	0.997853	1.25962	0.689695	0.31225	*
Japan	0.999824	1.39904	0.174494	0.11568	
US	0.994839	1.51325	-0.047349	0.26401	

Notes: $H_0: \sum a_{ih} = 1$. Exogenous terms: constant. 7 lags in the endogenous variables. 2616 observations. ** significant at 1%. * significant at 5%.

The null hypothesis is not rejected in any equation of the VAR, indicating that long-run market integration occurs in this system. These results can be further confirmed using the long-run VEC estimates. The null hypothesis in this test postulates that $\alpha_{11} = 1$ and $\sum_{k=2}^5 \beta_{1k} = -1$. The test statistic is $\chi^2(1) = 0.192777$ ($p = 0.660615$) and therefore the null is not rejected. The estimated α coefficients are reported in Table 3 along with the corresponding standard errors.

While being important to determine whether market integration occurs for the system as a whole, it is also important to know if shocks to the system propagate uniformly over the five markets in analysis. To this end, bivariate market integration tests must be conducted. The results of these tests are displayed in Table 4.

TABLE 4. LONG-RUN MARKET INTEGRATION TESTS FOR BIVARIATE SYSTEMS

Variable 1 (\square_{1j})	Variable 2 (\square_{1k})	$\chi^2(1)$	p -value
Portugal	Spain	14.67241	0.000128 **
Portugal	UK	0.395354	0.529498
Portugal	Japan	5.348930	0.020735 *
Portugal	US	4.176506	0.040988 *
Spain	UK	8.056931	0.004533 **
Spain	Japan	15.94533	0.000065 **
Spain	US	14.96671	0.000109 **
UK	Japan	2.095258	0.147757
UK	US	7.320365	0.006818 **
Japan	US	0.186013	0.666256

Notes: $H_0: \square_{1j} = 1, \square_{1k} = -1 (j \neq k)$. Exogenous terms in CE: constant and linear deterministic trend. 7 lags in the endogenous variables. 2615 observations after adjustments. ** significant at 1%.

The test statistic follows a χ^2 distribution with one degree of freedom. The null hypothesis in this test indicates proportionality or full price transmission. If the null hypothesis is not rejected then market j and market k are integrated in the long-run, *i.e.*, price transmission in these markets is proportional over time. The null hypothesis is rejected in all cases except for Portugal-UK, UK-Japan and Japan-US, where the LOP holds in the relationship between these markets. For the remaining cases it was found that, in terms of pairwise relationships, although the underlying markets belong to the same market space, they are not related in a linear way. Such relationships are, therefore, much more complex and certainly some type of nonlinear relationship links the markets in the global world.

CONCLUSIONS

This paper investigates stock market integration in the context of the global economy using a theoretical framework based on price theory and the Law of One Price. The empirical modeling of market integration is complicated by the nonstationary nature of price data. A structure based on multivariate cointegration provides the right setting for such analysis, which involves the specification of a dynamic VEC model of prices and returns.

The results show that the five stock markets analyzed do belong to the same market space and long-run market integration occurs in the system but the evidence on proportionality of pairwise price transmission is limited. It seems, therefore, that pairwise market integration in this context contains several elements that point to nonlinearities or other types of complexities that drive the behavior of the markets or their agents and move them away from homogeneous linear price transmission. Thus, pairwise nonlinear movements must be examined in a different atmosphere. Future work should look into the possibility of non-exogeneity of the exchange rates used to convert stock indexes to a single currency and on the nonlinearities in the transmission process of shocks from one market to another.

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CRITERIA FOR OFFSHORING DECISIONS IN EMERGING ECONOMIES

Fabienne Fel
ESCP Europe, France

Eric Griette
ESDES, IAE Lyon3, France

ABSTRACT

The purpose of our study is to investigate which criteria are taken into account in offshoring decisions towards emerging countries: the review of literature shows that there are two different approaches. On one hand, the quantitative approach focuses on financial analyze, using NPV calculation. On the other hand, managerial literature underlines necessity to take into account strategic, practical and cultural features, related to identified target countries. So, we decided to adopt a global approach, linking both financial and managerial analysis. We conducted a qualitative study among five multinational firms, which invested in factories or services in emerging countries. Data were collected through in-depth face-to-face interviews with top managers involved in these offshoring decisions. Our results show that the choice between emerging countries is not based on the quantitative approach, because the choice between offshoring countries lies on strategic reasons, as market potential. However, the quantitative approach is a useful guideline to make choice between entry modes once the country's choice has been made. At last, our results show that international firms with large offshoring experience have developed a real methodology in order to analyze and to prevent risks related to offshoring towards emerging countries.

Keywords : *Strategy; emerging markets; production offshoring; valuation; risks.*

INTRODUCTION

The purpose of the present paper is to investigate which criteria are taken into account in offshoring decisions: since the 1980s, lots of western firms of all sizes are offshoring their production, particularly towards emerging countries, in order to reduce costs and, more recently, to get access to new markets in fast-growing countries. But recent papers (Kinkel and Maloca, 2009) enhance failure cases, leading to backshoring. In these cases, risks related to “long physical and mental distances” –as lack of flexibility in the supply chain, or cultural differences, for instance- were underestimated.

This research studies the criteria usually used by firms not only to choose whether they should offshore their production (or part of it), but also to choose between emerging countries. Conceptual approaches either focus on financial or managerial analyses; the originality of our study is to show not only that they cannot be separated but also they are often linked to each other.

The article proceeds in the following way: after defining the concept of “offshoring”, we review the literature dealing with both financial and non financial opportunities and risks of offshoring, in order to determine all potential criteria of an offshoring decision. In a second part, we define our research methodology. Third, we provide the main findings and conclusions of our research, and present its limits.

LITERATURE REVIEW

According with Jahns and al. (2006), the term “offshoring” is seldom explicitly defined in the literature; in some cases, it includes offshore buying. For instance, Kinkel and Maloca (2009) define “offshoring of production capacities as relocation of parts of production to own locations abroad as well as to foreign suppliers”. A bit differently, we focus in our paper on direct investments in emerging countries, and consequently “offshoring” will refer to “foreign relocation of firms’ plants”.

Our literature review proceeds in the following way: first, we analyze potential benefits of offshoring operations. In a second part, we study risks linked to offshoring. Then, we discuss the literature regarding the decision process when offshoring, and particularly the way risks are effectively taken into account by top managers.

Potential benefits of Offshoring

A large number of studies deal with the motives for offshoring production activities, particularly towards low-wages countries (Farell, 2004, 2005). Kinkel and al (Kinkel and al., 2009) underline that there were two major waves in this literature: the first one is quite old (Vernon, 1966; Dunning, 1980, 1988), and focuses on the differences between capital-intensive activities and labour-intensive activities. As differences between countries are more important for labour costs than for capital costs, these authors think that offshoring is particularly interesting for labour-intensive companies, which may be relocated in low cost countries, whereas there is no real interest in relocating capital-intensive abroad. The second wave of literature regarding offshoring is more recent (Aron and Singh, 2005; Doh, 2005, Farell, 2004, 2005), and is related with the growing interest of firms of all sizes (including SMEs) and of all sectors for offshoring: in the past, offshoring was the concern of big industrial firms for production activities only; nowadays, many SMEs are following the biggest ones, and big industrial firms relocate non-industrial activities, such as R&D; on the same way, some labour-intensive services (as call centers or software production, for instance), are also relocating some units abroad.

The first reason for offshoring is often the expectation of reduced costs (Chan & al., 1995), which has led to many studies; strong differences between wages can induce important savings, particularly for labour-intensive activities, as said before. A Deloitte study about Global Offshoring (Abramovich, 2005) shows that the return on offshoring investment is higher when the first investment is high, and that it is necessary to have a large offshoring policy to maximize savings and profits.

Furthermore, savings are not only linked to production costs, but, in some cases, to logistic costs too: as the demand in emerging countries increases, local production allows logistic savings by reducing transportation distances and consequently transportation costs.

But savings are not the only motive for offshoring: since the 1990s, because of all the new emerging markets, researches point out that offshoring leads to other important benefits (MacCarthy and al, 2003; Kinkel and Maloca, 2009): in particular, offshoring makes it easier for firms to get access to new markets, access to foreign distribution channels, and, in some cases, access to raw materials too.

In the past, offshoring was used for producing parts or goods, which were then re-imported in western countries, where they were consumed. In some cases, offshoring could be the only way to get an access to interesting markets located in “closed” countries, with which no international trade was allowed, as Argentina or Brazil (Lopez and al, 2009).

But nowadays, lots of countries have emerged, and international trade barriers have fallen (as with China or countries belonging to the soviet area before the wall’s fall, for instance). Trade is free, and emerging economies are often fast growing markets, with an increasing demand of new customers, when western markets are mature and slow growing. So far, western companies are interested in these countries, and get an easier access to these markets when they produce locally and can use local distribution channels.

Despite these evolutions, Kinkel and Maloca (2009), who analyzed motives of German firms for offshoring during the 10 last years, conclude that these motives did not change during this period: the first motive is “the reduction of personnel costs”, and only clearly behind, search for extended capacity, opening up of new markets abroad, key’s customers’ wish for production near their area, and then taxes and subsidiaries. So, according to them, we phrase our first hypothesis to analyze the actual motives for offshoring:

H1: despite demand is increasing in emerging countries, the first motive for offshoring is still production costs reduction.

Risks related to Offshoring

At the same time, studies underline risks related to offshoring. According to Farrell (2006), risks -or criteria to be examined before an offshoring decision- can be ranged into the following categories:

- Costs :
 - Labor costs: risks are these of unexpected expenses due to lower productivity abroad, or to quality failures (Berger, 2006), which increase the production price. Knudsen and Servais (Knudsen and Servais, 2007) identify reduced quality of the final product as the most important risk for offshoring.

According to them, Kinkel and Maloca (2009) underline that preventing risks of poor quality leads to “unexpected expenses for quality securing measures, quality control and coordination costs for the foreign locations in order to guarantee the necessary product and process quality”.

- Supply chain costs: considering that offshoring means a longer supply chain when re-importing, some studies point out risks related to disruption or delays in delivery of goods (Moatti, 2009): the length of transportation can induce stock outages; in order to avoid these risks, many firms increase their stock level, which induce other costs. For Jahns and al. (2009), international networking leads to “massive economic damage” for the company when supply chain is not under control.
- Availability of qualified skills, both for workers and management (Fillis, 2001)
- Quality of infrastructure, which is important for two different reasons: first, parts or goods produced abroad have to be transported on an efficient way and at a reasonable cost, which is possible only when transportation infrastructures are correct. Second, coordination needs between the holding and its foreign factories lead to numerous travels of western top managers, and localization of foreign units near international airports enables costs and time savings.
- Market potential, which has to be well-estimated when the purpose of offshoring is to sell on local market.
- Risk profile, including natural and political risks of disruptive events, as well as intellectual-property risk,
- Environment, including government support, business environment, local culture.

Criteria for the offshoring decision

Financial criteria

According to the financial approach, the profitability of future foreign investments is normally based on the NPV calculation (Net Present Value). Should cash flows generated by the future investments be higher than the initial investment, then the NPV would be positive and consequently the project regarded as profitable (Eitman, 2004). But the NPV calculation is based on two essential variables, the anticipated cash flows and the discount rate. Then the limits of this analysis – if exclusively financial - arise. How can cash flows based on market studies be relevant? How can the discount rate used be relevant? A low rate based on under estimated risks will make many projects profitable whereas a rate based on over estimated risks would condemn all of all them. Moreover, managers decide on the basis of their cost perceptions, and these perceptions are based on past experiences. So, firms’ ability to estimate these costs is linked in their international experience (Eriksson and al, 1997).

H2 : As the purpose for offshoring is to make profits (by lowering costs, or increasing margin and turnover):

** NPV calculation is the first step in the offshoring decision process, leading to the choice of the country where to invest.*

** NPV calculation is the first criteria to be taken into account when choosing between different entry modes (Greenfield, joint-venture, acquisition or buyout) only once the country has been selected.*

Non financial criteria and risks

As said before, many risks and opportunities have to be taken into account when offshoring, to limit the risks of failure (Lewin and Peeters, 2006). Lots of them are very difficult to anticipate, and many studies conclude that top management does not pay sufficient attention to them when choosing between different locations (van Eenemaam and Brouthers, 1996; Kinkel, 2004). For Ellis (2000), location decisions are influenced by existing interpersonal links rather than by systematically collected research, because of the difficulty of getting complete information about far and unknown countries. As a consequence, some companies do not earn as much money as they planned to (Song and al, 2007), because of unexpected expenses. Firms globally invest in emerging economics for strategic reasons, without measuring all risks -either financial or non financial- linked to the operation. One the first motives is the imitation of other firms in the same sector, which seems a sort of guaranty. Risks related to the supply chain’s robustness are particularly ignored or underestimated, which induces unexpected costs; in some cases, offshoring operations are given up, and capacities are transferred back to the domestic location, or to a nearer region than the first location, what Kinkel and Maloca call “backshoring” (2009). For these authors, who tried to put a figure to this phenomenon, “within 4-5 years every fourth to sixth offshoring activity is countered by a backshoring activity”, which seems quite important.

H3: Top management often does not pay attention enough to risks related to offshoring, what leads to unexpected expenses, and decreases the potential profits of the operation.

However, as companies progress by learning or imitation ((Henisz and Delios, 2001), it seems that firms with large offshoring experience are more able to appreciate risks than other firms.

H4: Firms with large offshoring experience have developed a real methodology to analyze potential risks of offshoring operations.

METHODS

This study is concerned with the need of understanding deeply a complex process, so, we chose a qualitative approach to test our hypotheses. In order to understand the respective part of financial and non financial criteria taken into account in an offshoring decision, and to analyze the way risks were estimated, we conducted a study among 5 european firms, which invested in factories or services in emerging countries; these firms are all multinational companies, from different sectors; four are industrial ones, and belong to car equipment, construction, steel and automotive sectors. The fifth one makes software products.

Data were collected through in-depth face-to-face interviews with top managers involved in these offshoring decisions. We asked them questions related to both financial and non financial approaches, and on the importance of each category of criteria when having to choose between different countries. So, we analyzed deeply with them the offshoring decision process. The data collection was completed with secondary data relative to cases published in the media.

FINDINGS AND CONCLUSIONS

Case studies

Renault: Offshoring in Slovenia

The Renault's experience in Slovenia is older than the other experiences related in this paper, since the joint venture with the Yugoslavian plant of Revoz took place in 1988. In 1990, Renault became the majority shareholder, with 51% of the capital. At this time, Yugoslavia was still a country belonging more or less to the soviet area; Slovenia, created in 1991, was at the beginning of its existence considered as an emerging country.

Greenfield was not thought of, because Renault already had a partnership with an existing company : before 1990, Revoz plant produced cars for the local market (R4 and R5), with Renault license. In 1990, Renault decided to invest in this plant, to increase its capacity, to build a new painting workshop observing European standards, and to modernize the other workshops. The project was to ramp up the production of "Clio" cars in this site.

At this period, Renault was looking for increasing its global capacity, because of the saturation of all its plants. Renault chose Slovenia for economic reasons: first of all, Slovenia was located near key markets, as Germany, Austria and Italy, which allowed important logistic savings. Then, wages in Slovenia were very low. So, the decision of offshoring was taken despite political instability in this country.

Many unexpected events happened before the end of the project: the most important was the war in 1991, which delayed the delivery of the new workshop. The factory was located near a nuclear station, which was a potential target in the case of Yugoslavian attacks. So, the project was stopped during three months, because of the risk of failure, but it went on after the initial threat. As Renault did not invest in Yugoslavia in the aim to sell cars on the local market, the project was not discussed despite the split of Yugoslavia in many little countries (the population of Slovenia was less than 2 million people, a tenth the population of Yugoslavia).

Renault faced some problems with a low quality level of cars, and invested in training for all employees. Many of them were sent to another Renault's factory in Portugal, to receive a specific training. As employees had a high education level, and were very involved in the company, one of the most important of their new country; Renault obtained spectacular results, and one year later, in 1992, the quality level of Revoz factory was one of the highest of all Renault factories in Europe.

Renault's investment in Slovenia has never been discussed after these initial difficulties; on the contrary, the strategic decision of Carlos Gohn to specialize each Renault factory in one type of car to get economies of scale enhanced the importance of this factory, which produces today Twingo cars for the whole Europe. But we did

not discuss the recent evolution of Revoz factory, because Slovenia, which joined the U.E in 2004, is not yet an emerging country.

Steel company : offshoring in Russia

The steel company makes cans, both for vegetables and dry products, as coffee or pet food. It is an European firm, with 60 plants in 14 countries all over the world. The decision of investing in Russia was taken in 2005, for two main reasons: the first one was the need for finding growing markets, because western markets grew too slowly. The second reason was the satisfaction of “key account” customers’ requests: some international firms in the food industry were already in Russia, and their local factories had problems in supplying metal cans for packing their products: because of the poor quality level of Russian cans suppliers, they were forced to supply their cans from other countries, which led to very high logistic costs.

So, the steel company did not expect reduced production costs in Russia, but higher margins: as European customers based in Russia did not have to support high logistic costs any longer, the steel company could sell its cans at a very best price than in European countries. Furthermore, steel firm’s managers did not consider Russia as a low cost country, because of the amount of taxes.

They decided to invest in two different Russian areas, because of the size of the country and the distance between their different customers: customers producing canned vegetables were based in the agricultural regions of the south of Russia, though other customers were based in the Moscow area.

Although the research of low production costs was not the motive for investing in Russia, the financial aspects of investment were naturally taken into account, using classical financial tools. All investment ways were analyzed, from Greenfield to joint-ventures and buyout of an existing plant. Managers gave up quickly the Greenfield project, because of the very high price of the building land. So, the manager in charge of the Russian project spent six months in the country, looking for joint venture or buyout opportunities. At the end, the steel company decided to buyout an existing firm near Moscow, and to realize a joint venture in the south of Russia, because of the lack of buyout opportunity.

As the steel company had some experience concerning unexpected costs in emerging countries, the expected profitability of these investments was calculated on the basis of the past “performances” of these two plants, with targets of improvement. The initial plants efficiency (about 30%) was expected to reach the European average level (70%) within 3 years. All financial classical methods were used to evaluate the potential benefits of these investments.

The steel company did not face any problem with industrial property, because the technology used to make steel cans is quite old, and well known around the world. Major risks were very well estimated: for instance, 3 French managers (for production, logistics and quality) were sent for one year to Russia for working with local managers in order to prevent risks in these areas.

Some unexpected problems arose: thefts of containers and tools, and problems with the owner of Moscow’s plant walls, who sent an armed militia to require more money. These problems were quite anecdotic, and the steel company considers these Russian investments as real successes.

Car equipments firm

This French industrial firm makes high technological car equipment. The firm is a large corporation investing as much as 400 million Euros in the emerging countries per year. It’s a world leader regarding the product. The brand is famous for the quality of its products.

Asian countries are key markets for the firm. According to the investment director, average growth should be as high as 17 % over the next few years as compared to 2 or 3 % for the industrialized countries. The firm’s goal is to build one plant per year in the emerging countries. The main motive for the foreign direct investment is the market potential. Emerging markets are growing extremely fast, meaning new consumers, new opportunities and sometime new profits.

“Twenty or thirty years ago western firms invested in emerging countries mainly to lower their production costs” the investment director explained. What previously was the main motive for foreign direct investments now comes second and sometime is no even mentioned. Making high technological products requires reliable and skilled teams able to work together. What initially meant low costs often later leads to high production costs. Furthermore reducing costs as an ultimate goal for western firm can turn into a disaster.

Any greenfield investment or any off-shoring strategies decided by the firm always refers to a quantitative approach. A rigorous firm-made model based on carefully anticipated cash flows over the next 10 coming years is carried out. Calculating the present value of the future investment requires adequate discount rates. To the usual firm's domestic weighted average capital cost (WACC) is a specific percentage added so as to take into account the level of risks of the considered emerging market. A table set up by the financial department gives relevant discount rates for each emerging countries.

This approach is regarded as efficient; the usual critics regarded anticipated cash flows and the choice for the discount are not regarded as inconsistent by the firm.

Investing in emerging countries also means expected and unexpected risks and problems. It's clear that firm's patents will be stolen; what matters is to keep them as long as possible. It's also crucial to always be more technologically advanced. Research in France is crucial.

When the firm enters a market through an acquisition it takes no less than ten years to adjust the production and the management to the firm's criteria. It's usually easy to recruit local workers but much more difficult to find skilled workers and even more to find skilled engineers in China. Building reliable teams is also a real challenge; French managers and engineers have to be sent to China for long periods of time; that means high transportation costs as well as high living costs and wages for expatriates.

Construction company

This group produces aggregate materials all over the world used in construction. It employs 16 000 people. The process used by the firm to turn raw materials into finished product is not so sophisticated. Therefore many firms can access the market. The competitive advantage is here based on the marketing strategy.

Production is usually made no further than 200 km away from the markets. The only exception concerns markets located near the sea; production can then be shipped from emerging countries to the markets so as to take advantage of low production costs. Other than that, the main motive for off-shoring is here mainly the potential of the emerging markets given the firm's production technical constraints.

When entering a new market, considering the specificity of this unsophisticated product, the firm considers as a necessity to be the first foreign investor to ensure a successful strategy. The choice of entry mode mainly focuses on acquisitions; Greenfield investments requiring too much cash. Emerging markets are regarded as important; from one hundred to five hundred million Euros are invested each year. Emerging markets are split into three zones: Asia, Central Europe–Middle East–Africa, Latin America. Asia looks very promising.

The decision to invest is carefully assessed and based on the usual quantitative approach. Cash flows are anticipated over a twenty-year period but only a single discount rate is used for all the emerging countries. It's the same as the domestic WACC normally used by the firm in France amounting to 15% as imposed by shareholders. The decision process is normally based on three steps. First Managers for the different zones make investment proposals. Second the present value of the future investment is calculated. Third marketing studies are carried out in the considered emerging market so as to ensure relevant figures for anticipated sales and cash flows.

At last what was probably unexpected concerns the Chinese market. The firm considers China as a difficult market. "We have no margin, we make no money", the investment manager said.

Software industry

The software company core activity mainly concerns middleware, linking software to various applications or components. Other activities also include data operating systems, counseling and information technology. 16 000 employees work today for the group including 600 people in India, 500 in Romania and 100 hundred in Morocco. There are no operations in China. India attracts service off shoring; English is widely spoken in India. Very few Chinese speak English, consequently the country doesn't attract much service off shoring.

Two main motives account here for the off shoring strategy: the potential of the new emerging countries as well as the requirements of the firm's clients. Clients consider it makes it easy for them to increase their market shares in emerging countries if their own suppliers have off shored part of their activities. Seeking for low costs is not a motive for the firm. Obviously hiring an engineer costs 330 Euros in France versus 40 Euros in India but when operations take place in India reliable teams have to set up. It requires expatriates to make them work imposing at last very high extra costs.

Quantitative valuation of the foreign investments is not a mandatory step for the firm in the decision process. The firm's chairman insists on the cultural gap between the two worlds. It seems to him that constantly and globally seeking for lower costs creates risks and tensions. He is also worried about growing antagonism between cultures. It seems it is time to stop offshoring and may be to focus on the collective know-how in France.

Discussion

Motives for offshoring

We wrote as Hypothesis 1 that *“despite demand is increasing in emerging countries, the first motive for offshoring is still production costs reduction”*. Our results don't support this hypothesis, which is clearly infirmed. The only company in our sample, whose motive was the expectation of reduced production costs, is Renault, which took this decision 20 years ago. In more recent offshoring operations, the first motive of our respondents is the need to get an access to fast growing markets to enhance company's growth, and the second motive is the satisfaction of key customers' requests for producing near their own factories abroad.

We assume that the differences between Kinkel and Maloca's conclusions and ours are linked to the composition of the sample. These authors realized a quantitative survey, including more than 1660 German companies, with 90% SMEs of medium-sized firms (less than 250 employees). As SMEs have followed the wave of offshoring later than big companies by an imitation effect, their motives seem close to the past motives of multinational firms, which were production costs reduction.

On the contrary, we studied 5 multinational firms, whose past motives for offshoring were expectations for costs reduction, but which are now looking for fast-growing markets, sometimes under the pressure of key customers. So, we assume that motives for offshoring depend both on the size of the firm and of its maturity about offshoring concerns, which is a way for future researches.

Financial criteria

Regarding the financial criteria we considered a double hypothesis:

*H2a * NPV calculation is the first step in the offshoring decision process, leading to the choice of the country where to invest.*

*H2b * NPV calculation is the first criteria to be taken into account when choosing between different entry modes (Greenfield, joint-venture, acquisition or buyout) only once the country has been selected.*

Considering our sample, hypothesis 2a is clearly infirmed. None of the firms use NPV calculation to choose between emerging countries when considering offshoring operations. Countries are chosen because of their characteristics; the firm in our sample selling middleware chose India or Romania versus China because of the skills of the local engineers and the absence of language barrier. Very few people speak English in China.

On the opposite hypothesis 2b seems to hold particularly for the industrial firms of the sample (the only exception concerns the firm selling middleware). Managers often made it clear that no offshoring could be made without the quantitative approach based on the project present value calculation. To the usual criticisms put forward during the interviews underlying the difficulty to properly assess the future cash flows over ten or twenty years or to choose a relevant discount rate or Wacc, managers expressed very confident on their firm's specific methodologies.

Obviously the quantitative approach does help firms to choose between different entry modes -*Greenfield, joint-venture, acquisition or buyout*- but only once the country choice has been made. So, firms' ability to estimate these costs depend on their international experience (Eriksson and al, 1997).

Non financial criteria and risks

H3: Top management often does not pay attention enough to risks related to offshoring, what leads to unexpected expenses, and decreases the potential profits of the operation.

H4: Firms with large offshoring experience have developed a real methodology to analyze potential risks of offshoring operations.

Experiences studied in this paper are considered as successes by our five respondents. Although they all faced some problems, as low productivity (Steel company), poor quality level (Renault, Steel company), most of these problems were anticipated during the offshoring decision process, and integrated in the NVP calculation, what clearly infirms hypothesis 3. For instance, Steel company budgeted subsidiary managers wages for production, logistics and quality, in order to work with local managers for one year. Car equipment company takes into

account risks about intellectual or technological property, and does not transfer recent technologies, in order to limit theft risks. As our five respondents did not decide to invest abroad in order to get reduced production costs, but to get access to fast growing markets, extra costs linked to poor quality or poor productivity level were not considered as major problems.

Our five cases are companies with large offshoring experience, and they have developed a real methodology to analyze potential risks in emerging countries, which confirm our hypothesis 4; they invest in the preparation phase, sending managers on the field during long periods, in order to identify local opportunities and risks. They invest in coaching and training to smooth transition phase, and to minimize identified risks. If some trouble occurs, they set action plans up, in order to correct the problems. So, it seems that firms progress with offshoring experience, and that our respondents, who have a large experience in this area, are now aware of potential problems in emerging countries.

CONCLUSION

The target of our study was to analyze criteria taken into account when offshoring. Our results show that multinational firms choose nowadays offshoring countries for strategic reasons, related to market potential, rather than for cost minimization aims. So, the choice between emerging countries is not based on the quantitative approach. However, NPV calculation is a useful guideline to make choice between entry modes (Greenfield, buyout or joint-venture) once the country's choice has been made. At last, although literature underlines a lack of real methodology concerning the analysis of all sorts of risks when offshoring, our results show that international firms with large offshoring experience have developed a real methodology in order to analyze and to prevent risks related to emerging countries.

The limits of our study are linked to our methodology research: by choosing a qualitative approach, we are not able to generalize our findings. Future research will have to follow to confirm these conclusions with a larger sample. Moreover, we have assumed that motives for offshoring depend both on the size of the firm and of its maturity about offshoring concerns, which is a way for future researches.

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MARKET ASYMMETRIES, ARBITRAGE AND TRANSITION: THE CASE OF RUSSIA

Mikhail Glazunov

University of Hertfordshire, UK

ABSTRACT

This paper develops the concept of corporate strategy as a process of arbitrage between markets where different nature asymmetries are exploited by corporate managers. From a development position, this research tries to find answers for questions: How could strategy as arbitrage be employed in transitive economies? What creates asymmetries and opportunity for arbitrage in transitive economies? In this paper we show that arbitrage is possible when encountering price asymmetries and a technical opportunity of realisation arbitrage. Examples from the Russian forestry, construction, mining and car industries reveal how executives can create and employ price asymmetries. Also the paper shows opportunity for labour safety, labour law and environmental pollution arbitrage. Also this paper reveals additional type of strategy - anti-arbitrage strategy.

Keywords: strategy, arbitrage, price asymmetries, Russia.

INTRODUCTION

This paper develops the concept of corporate strategy as a process of arbitrage between markets where different nature asymmetries are exploited by corporate managers to improve cash ROCE. According to the traditional definition, strategy is the course of a company over the long term, seeking an advantage through its configuration of resources and competences with the aim of fulfilling stakeholder and shareholder expectations.

Anderson et al (2008) offer a new look on corporate strategy as a ‘process of arbitrage between markets where physical, financial and temporal asymmetries are exploited by corporate managers to boost earnings-capacity’. Also, Ghemawat (2003) notes that the scope for arbitrage is the differences that continue among countries and distances between them could be measured by a four-dimensional framework which includes differences in culture, in the administrative and institutional context, geography and differences in economic attributes.

This paper increases the scope of arbitrage and proposes that arbitrage also is the differences that persist between regions of a country. From a development position, this research sets additional questions: Is there another type of strategy as arbitrage? How could strategy as arbitrage be employed in transitive economies? What creates asymmetries and opportunity for arbitrage in transitive economies? This research tries to find answers for these questions through the experiences of the transitive economy of Russia.

In this paper we show that arbitrage is possible when two conditions are met: the same asset does not trade at the same price on all markets and there is a technical opportunity of realisation arbitrage. Examples from the Russian forestry, construction and car industries reveal how executives can create price asymmetries and opportunity for arbitrage and use strategy as arbitrage getting a competitive advantage. Also the paper shows the opportunity for exploiting asymmetries between high and low level of labour safety cost, labour law cost and environmental pollution cost to boost earning capacity. In addition, by disclosing the car maker Avtovaz competition strategy we reveal an additional type of strategy - anti-arbitrage strategy.

This article is divided into three sections: the first of which offers a new look on corporate strategy as a process of arbitrage between markets where different types of asymmetries are used by corporate managers to increase earnings-capacity. The second section represents different examples from various Russian industries which reveal strategy as arbitrage. In the final section, we use the Avtovaz case to consider, in more detail, arbitrage practice in the large companies that disclose a new phenomenon of arbitrage.

STRATEGY AS ARBITRAGE

According to the traditional definition, strategy is the direction and scope of an organisation over the long term, which achieves an advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Jonson et al 2006). Also strategy should help to the company find the following questions: Where should the company compete? How could the company achieve and maintain advantage? What capabilities, assets, structures and culture do companies need to bring the strategy? How can the company change?

There are different types of strategy typology and these strategic alternatives are labelled generic because theoretically any type of business can implement them, whether it is a mining company, a high-technology firm or a public organisation.

Ghemawat (2003) suggests a new look on arbitrage as element of corporate strategy. He writes that arbitrage is not cheap capital or labour; the scope for arbitrage is the differences that continue among countries. He offers a four-dimensional framework for measuring distance between countries which includes differences in culture, in the administrative and institutional context, geography and differences in economic attributes. These differences from country to country launch a mass of strategic arbitrage opportunities. Ghemawat emphasizes differences that continue between countries on the contrary one can propose that arbitrage also is the differences that keep on between regions of the one country.

Anderson et al (2008) reveal corporate strategy as a 'process of arbitrage between markets where physical, financial and temporal asymmetries are exploited by corporate managers to boost earnings-capacity'. They employ a wide definition of arbitrage and propose that arbitrage is a process consisting of buying and selling on different markets with the intention of taking advantage of the differentiation in the price quoted. In addition, Anderson et al reveal a few types of arbitrage: 'off-shoring, out-sourcing and transfer pricing arbitrages: off-shoring arbitrages high labour costs against low labour costs, out-sourcing arbitrages internal settlements against an external supplier where a gradient of difference can be identified and captured, transfer pricing, between geographic subsidiaries, can be employed to arbitrage fiscal variations between one region and another reducing the firm's effective tax rate and lowering the cost of capital'.

One can propose that stable economy and political system has less opportunity for arbitrage. In developed countries, market forces relatively quickly maintain equilibrium of price differentiation. In countries with strong state regulation or with authoritarian regime price being regulated by the state and opportunity for arbitrage is minimal. For example in the USSR arbitrage as a legal business operation was forbidden and as a result was being illegally. Whereas, in transitive countries, generally with weak economic and political institutions, there are enormous opportunities for arbitrage which involve using knowledge or confident information of future economical and political decision. In addition, there is a large zone when political decision makers create opportunities for arbitrage and they are in positions to profit from their private investments. In the following sections, strategy as 'arbitrage' will be revealed through the experiences of the transitive economy of Russia.

STRATEGY AS ARBITRAGE IN RUSSIA

Arbitrage is the practice of getting benefit of a price differential between two or more markets and it is possible when two conditions are met: the same asset does not trade at the same price on all markets and there is a technical opportunity of realisation arbitrage. So two parameters determine arbitrage: a price differential and a technical opportunity. In the traditional understanding, arbitrage is the act of buying a product in one market and selling it in another for a higher price and it has to take place concurrently to avoid exposure to market risk and therefore arbitrage as financial practice has dramatically grown together with the progress of telecommunication which gives the technical opportunity for realisation arbitrage.

To analyse arbitrage, it is possible to build the matrix with two parameters: opportunity and price differentiation, and selects four possible options: absent price asymmetries and strong potential for arbitrage (option 1), absent price asymmetries and weak opportunity for arbitrage (option 3), strong price asymmetries and robust opportunity for arbitrage (option 2) and strong price asymmetries and weak opportunity for arbitrage (option 4). Fig1 shows matrix price asymmetries – opportunity with the four outcomes.

Fig1 Matrix price asymmetries – opportunity.

Absent price asymmetries and strong potential for arbitrage Option 1	Strong price asymmetries and robust opportunity for arbitrage Option 2
Absent price asymmetries and weak opportunity for arbitrage Option 3	Strong price asymmetries and weak opportunity for arbitrage Option 4

Source: author

Option 2 is the standard case of arbitrage and it was analysed above, option 3 could not give arbitrage therefore only two options are interesting for analysis business strategy. Option 4 is the typical case which determines state and regional regulation, bureaucratic barriers and limitation of infrastructure of the country and region. Often these determinants are positive because they protect ecological and economic interests of the country but often they have strong negative intensions.

An example could be the Russian forestry industry. China is the biggest market for wood products, which has fueled import growth, including a considerable quantity from Russia. Not surprisingly there is forest cutting carried out with abuse of the existing legislation however the major part of the cutting in the east part of Russia was made with official permits for cutting operations. Russian wood log imports in China are very attractive arbitrage but are limited by a weak opportunity for the increase of supply due to Russian state legislation.

That is why many forestry companies created many opportunities for cutting. This was done by obtaining permits for felling in specially protected natural areas where cutting is forbidden or without a genuine assessment of the volume of wood available for cutting, obtaining a permit to cut and transport the wood using relatively non-invasive technology but then using cheaper, more primitive methods; by exploiting cutting permits established on dubious interpretations of forest management laws and regulations and by exaggeration of the degree to which a forest is afflicted with pests or diseases, so that immediate selective or clear felling is necessary, as a result, about 40% of Russian softwood log imports were of dubious origin. (Morozov 2000). This example shows how a weak opportunity for arbitrage was strengthened and combined with strong price differentiation, strategy as arbitrage was created.

The Option 1 (strong price asymmetries and robust opportunity for arbitrage) gives the opportunity to create arbitrage by the way of organisation special conditions. An example of this option is the employment of migrant workers in Moscow and other Russian cites when the construction industry, having had potential for labour arbitrage, lobbied for special state resolutions to allow the employment of migrants. According to the report Human Rights Watch (2008) there were 9 million migrant workers in Russia, 80 percent of whom come from nine countries of the CIS with which Russia maintained a visa-free regime. Approximately 40 percent of migrant workers have been employed in the highly unregulated construction industry and two million of them work in the Moscow region.

Generally, migrant construction workers are young men, who leave their family in their home countries and enter Russia for six to nine months of seasonal employment, often for many years in a row. These workers enjoy higher wages in Russia and often send money to their families. Building workers usually live in deprived conditions and often employers commit violations of Russian law such as: confiscating passports, withholding wages and forcing employees to work long hours. The absence of a written employment contract also leaves migrant workers vulnerable in cases of workplace accidents because workers cannot access state-sponsored accident insurance that depends on employer contributions for all legal employees and in many cases employers do not provide any assistance to injured workers (Ibid).

This example shows the well-known type of economic arbitrage which exploits low-cost labour as a reaction to growing competition in markets and huge demand. However, the Russian model of off-shoring arbitrage is dissimilar to that observed elsewhere. Russian business transfers labour from developing countries to the relatively more developed Russia. More generally, off-shoring transfers capital and technology from advanced economies to developing economies with lower labour costs.

In addition, this case reveals two complementary advantages for companies moving to emerging markets: undeveloped health and safety regulations and labour law. Health and safety compliance is very expensive in

manufacturing but often ignored in developing countries. As a result, relocation into countries with more lenient health and safety regulation can create reduced operational expenditure.

Labour law in developing and transitive countries in comparison with developed countries does not provide adequate terms of employment, anti-discrimination, unfair dismissal and child labour protection. Also, trade unions are usually not independent of executives of companies, reducing union effectiveness. Consequently, companies conducting business in developing countries can often reduce effective labour costs.

In the global market generally, environmental expenditure has been increasing and there are significant differences in environmental standards and control systems between transitive and advanced economies. Multinational companies are arbitraging environment costs, relocating domestic operations into countries with low environmental standards and/or countries with undeveloped monitoring systems in order to take advantage of international differences in pay for pollution. Finland, for example, with a strong paper industry having had huge forest reserves, encountered logging limitations from the state due to environmental standards. As a result of Finnish policy since the 1990s, round wood exports from the North-West of Russia to Finland had doubled from 4-6 million cubic meters per annum in 1982-1993 to 10-11 million cubic meters per annum and this export generated a considerable deficit of raw materials for Russian paper companies (FAO 2002). In the same period, Finland increased its production of pulp and paper two-fold whereas the Russian share in the world market reduced more than two thirds. Logging dominated the structure of Russian forest exports because the industry had inadequate wood processing in an immediate vicinity of wood growth. Finland used the Russian forestry industry solely as a raw material supplier (European forest sector outlook study 2005).

In the next section, we consider case of Avtovaz. This case demonstrates strategy as arbitrage in action and questions the extent to which earnings capacity is transformed.

CASE ON STRATEGY AS ARBITRAGE

Methods

To explore the strategy as arbitrage of firms in Russia we take a case study approach looking at the post privatisation performance of Avtovaz. Yin (2003) defines case study research method as ‘an empirical investigation that examines an existing phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident’ and in which numerous sources of evidence are used. To construct the case study we combine a narrative and numbers account whereby narratives are collected from semi-structured interviews with executives of the companies, corporate publications and direct and participant observation have been employed to establish factors which impacted on post-privatisation corporate performance. In addition, to the collection and interpretation of narratives, we have collected financial information for Avtovaz covering the period 1994 to 2007. This financial information has been structured into key performance ratios employing a nature of expenses approach (Andersson *et al* 2007) with a view to also triangulating the interview material.

Case of Avtovaz

Avtovaz was the largest Russian firm that built and assembled cars from parts sourced within Russia and its satellite countries. Significantly, the company built approximately 750,000 cars each year before its privatisation and was a major supplier of cars to Russian consumers. It employed roughly 125,000 employees and was generating a 20% return on capital employed (Avtovaz 2000). In 1990s, Russia had a comparatively underdeveloped car market and according to official statistics market penetration was at 83 cars per 1,000 people, considerably lower than that in other European markets (ASM 1995). This factor created a huge demand for cars and price asymmetries between domestic and external markets because national manufactories did not have adequate capacity and the quality of cars could not satisfy consumers. Consequently, numerous small companies and entrepreneurs employed opportunities for arbitrage and in 1996 there was colossal growth in foreign second hand motor vehicles which rose to 457,000 (about 50% of the market) which was a serious threat to the domestic automotive industry and for Avtovaz in particular (ASM 1997). In order to stop the significant growth of used-car imports Avtovaz lobbied the government to create a programme to encourage domestic production of cars and increase tariff on used cars by 35% to protect the domestic producers from inexpensive used-car imports.

This case reveals two outcomes: on the one hand it demonstrates again strong price asymmetries and robust opportunity for arbitrage (Option 2) in an undeveloped market and on the other hand it shows a strategy of defense against arbitrage which is employed by opponent(s). This example clearly discloses the Avtovaz competition strategy – increasing the trade barrier for foreign producers.

Employing matrix ‘price asymmetries – opportunity’ gives a new opportunity for strategic analysis. In the context of arbitrage, the strategy of Avtovaz was the transference of the company’s opponents position from

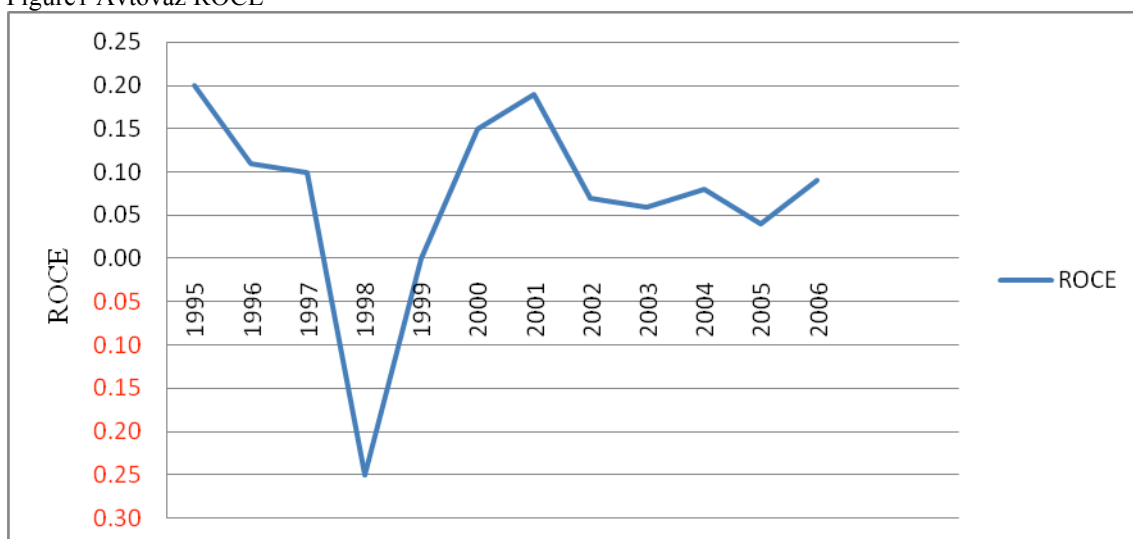
option 2 to option 4 and as result of this movement it had been decreasing opportunities for arbitrage. Also as the second company sub-strategy could be the movement itself from option 2 to option 1 (the absence of price asymmetries and strong potential for arbitrage): by increasing capacity, improving quality and optimising car price; consequently decreasing price asymmetries and eliminating arbitrage. The history of Avtovaz shows that the company maintained competitive advantages for 10 years by using anti-arbitrage strategy.

In that time, however, the competition in the Russian car market had been getting stronger. Despite high duties, which were reducing demand for second-hand foreign-made cars, Avtovaz could not save its position because growth of the national economy shifted consumer preferences toward new foreign-made cars of the low and average cost segments. Since 2000 all major world car manufacturers paid increased attention to the Russian market and by the end of 2002 there were already six foreign car assembly operations in Russia such as Ford, General Motors, Kia, BMW and Renault. (ASM 2003).

The Russian new cars market steadily posted solid rates of growth throughout the 2003-2007 period. Additionally, after years of protecting the domestic car industry through prohibitive tariffs, the government reduced the duty on imported auto components to virtually zero. This motivated the world's car producers to significantly increase production facilities in Russia. In the struggle for Russian customers, foreign companies used all possible trade methods: building car assembly plants in Russia, offering consumer credit on a wider scale, improving and developing dealer networks, selling new models in the Russia market simultaneously with sales in markets of Western countries and using wide, aggressive marketing. In 2007, the total sales of new passenger cars constituted 2,000,000 units and the domestic cars made up only 30% of them (ASM 2007). Generally, in that time Avtovaz maintained its volume of production, which fluctuated between 600,000 and 700,000, although the company dramatically decreased its market share from 50% to 24%. The financial capacity of the Russian market was growing faster than the volume indexes of sales. The Russian new cars market generated total revenues of \$24.6 billion in 2007, representing a compound annual growth rate (CAGR) of 31.3% for the period spanning 2003-2007 and market consumption volumes increased with a CAGR of 19.7%. The company increased sales from \$3.3Bn to \$5.1Bn but the share of LADA by financial volume had been decreased from 32% to 20% because it could not make up the expensive models and maintained position only in the cheapest market niche (Avtovaz 2004).

Analysis of return on capital employed (ROCE) Fig 1 shows that in the period 1995-1999 the average ROCE for Avtovaz placed at about 10%. In that time, ROCE was on a failing trajectory from a high of 20% in 1995 towards -25% in the crises of 1998 because the corporate sales did not generate healthy gross profit margins and the company had serious problems with liquidity, marketing and operation management. However, in 2000 the ratio quickly recovered to 19% due to considerable growth of company earning and relatively slow growth of capital employed. In the years 2000-2005 Avtovaz could not improve its ROCE and it fluctuated between 3 and 8 %.

Figure1 Avtovaz ROCE



Note: ROCE is defined as operating result before depreciation and amortization in relation to the sum of equity and long-term debt. Source: Author calculation.

The problem facing Avtovaz during the 1990s was its increasingly weak finances driven by wealth extraction, poor operating finances and weak strategy where the anti-arbitrage struggle against foreign producers of new and used cars was the major element of corporate strategy. This story reveals a limitation of employing strategy as arbitrage and/or anti-arbitrage if these strategy employed are independently of alternative strategies and do not support other elements of corporate management.

DISCUSSION AND CONCLUSION

This paper has studied the concept of corporate strategy as a process of arbitrage between markets where different nature asymmetries are exploited by corporate managers. Also, the scope for arbitrage traditionally includes the differences that continue among countries but we have shown that opportunity for arbitrage could comprise the differences that exist between regions of one country and the level of the differences depends on size of the country, political system and institutional variation in the culture as well as geography of the country. Conditions within the country, deficit of modern economic and political institutions, regulatory policy framework and non-transparency were paramount factors in determining the strategy and influencing outcomes from privatisation in relation to economic productivity and welfare in Russia. Also all these factors formed and maintained price asymmetries and opportunity for arbitrage in different segments of national economy. Additionally, the period reforms was characterised by an enormous level of inflation, a huge migration from eleven members of the Commonwealth of Independent States, a large differentiation in living standards and wages between Russia and CIS countries as well as between Russian regions and increasing of the share of tax in GDP. These factors formed and maintained price asymmetries and opportunity for different types of arbitrage in the Russian economy.

In this paper, it has been shown that arbitrage is possible when there are two conditions: the same asset does not trade at the same price on all markets and there is a technical opportunity of realisation of arbitrage. Consequently to analyse arbitrage, a matrix with two parameters is built: those of opportunity and price differentiation, selecting four possible options for arbitrage. Examples from the Russian forestry, construction and car industries have revealed how executives can create price asymmetries and opportunity for arbitrage and use strategy as arbitrage getting a competitive advantage.

Also the paper has revealed some complementary advantages for companies moving to emerging markets and exploiting asymmetries between high and low level of labour safety cost, labour law cost and environmental pollution cost to boost earning capacity. In addition, by disclosing the car maker Avtovaz competition strategy we reveal an additional type of strategy - anti-arbitrage strategy. Generally, this type of arbitrage is more possible in countries with weak institutional and regulatory bodies such as Russia and other countries with transitive and developing economies.

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SMEs STRATEGIES

INTERNATIONALIZATION OF SMALL AND MEDIUM SIZED ENTERPRISES (SME) IN GERMANY

Christopher Stehr
Karlshochschule International University, Germany

ACADEMIC ABSTRACT

In 2008, Germany was still the biggest single exporting nation in the world. But entrepreneurial internationalization and an internationalization strategy of a Small and Medium Sized Enterprise (SME) is more than just export. Some SMEs reach their limits in the process of an entrepreneurial globalization which needs activities steps beyond the previous internationalization of businesses. The main aspect of the paper is - on the basis of a theoretical approach adapted from practical examples - how SMEs can tap their full entrepreneurial globalization potential.

Keywords: *internationalization, globalization, strategy, factors of success, small and medium-sized enterprises*

EXECUTIVE SUMMARY

The aim of the paper is to show on different examples how it is possible to develop from a former regional market leader to an actual world market leader. 30 world market leaders from different branches of the southern part of Germany have been chosen for this best practice oriented survey. The paper shows which possible globalization strategies can be used by SME and how to find out which strategy would fit best for a company.

The methodology and scientific content evolved are based on structured interviews as well as on the descriptive method. Other findings are from a questionnaire. The results of the questionnaire represent the first findings from a bigger research among more than 10 000 SME. For this paper only the 27 questionnaires are used because the research just started in August 2009. Final results of this research will be available in the middle of 2010.

INTRODUCTION

Globalization as scientific term is undifferentiated used and in the same time a context-linked catchword (Löffler, 2000). Because of a continuous liberalization of worldwide trade - even within the slow down of the negotiations of the Doha Development Round and the actual global financial crises - the global competition will increase. That means that also SMEs with regional or national orientation have to face an increasing number of potential foreign competitors in their home markets.

The continuous processes of economical globalization comprise several chances for small and medium sized enterprises (SME) but also some risks. Chances exist in the abilities to export and the continuous market entries in to new markets and the final globalization of business. The economic ability of taking strategic or operational advantage for a company out of the arising chances offered by globalization becomes more important for the present and future success. Especially the entrepreneurial globalization strategy that is developed, adopted and adjusted specifically for the companies' needs is essential.

The paper shows how companies can develop and implement a globalization strategy for their entrepreneurial globalization. Following this, the current globalization strategies of enterprises will be introduced and pointed out by examples of successful globalized SMEs and some big German companies. For this purpose structured interviews with 30 SMEs of the southern part of Germany, which are already market or world market leaders, were done. The empirical findings of the survey are used to develop the theoretical background.

ENTREPRENEURIAL GLOBALIZATION STRATEGY

The globalization of business activities is not a new development in the framework of economic acting. Therefore entrepreneurial globalization found its reference in the economic literature (Kumar & Haussmann,

1992). There are differences between the definition and the dimensions mentioned beneath globalization and globalization strategy (Welge & Holtbrügge, 2001).

First of all, it is necessary to differentiate between entrepreneurial internationalization and entrepreneurial globalization. Entrepreneurial internationalization or the internationalization of businesses is already reached if the enterprise supplies markets in two or more countries. So it is possible to speak of internationalization when a company becomes active on a foreign market for the first time (Peng, 2009). With that, even for example exports to Austria and to Switzerland by German firms or exports to Mexico and to Canada by US-American are included in this definition of internationalization.

Even more, the entrepreneurial globalization is the economical process of enlargement the existing international activities to a global extend (Bamberger & Wrona, 2002). Thus, globalization is the “generic term for all forms of international economical activities” (Krystek & Zur, 2002, p. 6).

Concerning the term globalization strategy – similar to the term globalization - there is no general definition and a wide range of dimensions. Out of management perspective globalization strategy is to understand as the strategic development and the following operational planning and the successful implementation of the global entrepreneurial economical activities (Becker, 2001).

ANALYSIS OF THE ENTREPRENEURIAL GLOBALIZATION POTENTIAL

German SMEs – for example - are facing more and more global competition in their international captured markets and in their national or regional markets. SMEs have to face new competitors and at the same time they have to develop strategies for abroad respectively to focus on the enlargement of their foreign activities going further than the classical export activities. In the research we found out that most of the SME get internationalized because of the exploitation of new markets for distribution and purchasing.

For SMEs and its processes of entrepreneurial globalization it seems necessary to check as well the classical (procurement, production and sales) as the enlarged economical areas (human resources, finance and so on) for non-utilised globalization potential. With a positive benchmark of their potential SMEs develop and implement comprehensive globalization strategies to accomplish these challenges. For being successful in globalization a strategy is needed which is adjusted on the current company (adaptation). Based on this and according to the framework of an operationalized globalization strategy there should be a continuous inspection with latent top-down/bottom-up planning process taking place.

Thus, for SMEs having only very limited international activities so far the basic analysis of their own globalization potential is the first and at the same time one of the most important steps for entrepreneurial globalization. Not only for global non-active SMEs is the development and implementation of a globalization strategy of importance (Ghemawat, 2007). A refreshing analysis of the own actual or passed strategy is also helpful for internationalized SMEs, as a basis for further activities in the process of entrepreneurial globalization.

Of particular importance are already executed international economic activities and the experiences the SME can derive from these. If the SME has already problems with its current degree of internationalization, the possibility of failure of the adjustment or enlargement to the point of global activities increases as a result of non-solved problems.

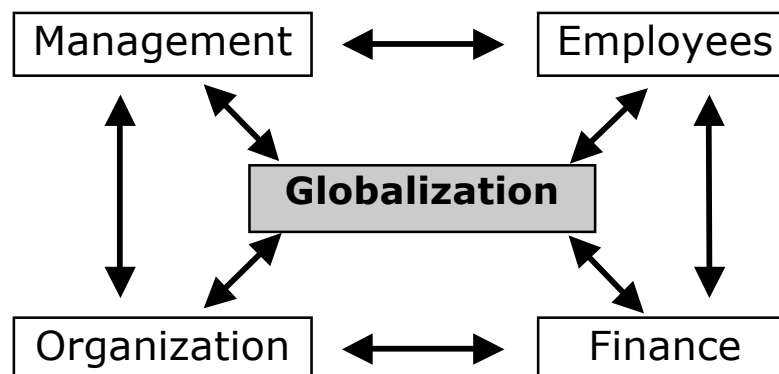
It is useful for an entrepreneur to check critically the companies’ international activities before the “going global” in order to analyse the possible strengths and to eliminate the weaknesses. Besides the structural analysis that follows the five-forces model also the SWOT-analysis as a strategic instrument to check the globalization potential can be used. Thereby, in the framework of the internal inspection the strengths and weaknesses - and in the external view - the opportunities and threats get analysed and valued (Porter, 1989).

A wrong decision respectively the overestimation of the company’s internal resources and qualifications in the course of globalization can lead to a misinvestment (Tilly & Welfens, 2000). The company will be financially burdened in this case. This can lead to - for example with the decision in the framework of the so-called “off-shoring” - back sourcing of the added value process into the particular descending country with loss of the investment. In the worst case the global competitor will also be strengthened by a withdrawal from the foreign market. Continuously, current examples are found in the economical press (for example the withdrawal of a

German do-it-yourself store from China and the sale to the market leader). The analysis of the globalization potential of the particular SME results from the inspection of the following central analysis:

- The globalization potential develops generally out of the SMEs willingness to adjust and to adapt to the global conditions (law, culture, administration) and worldwide (political/economical) situations. The central challenge thereby is the motivation and support of the associates and employees for the “going global”. The willingness to adjust needs a gradual development and has to be worked out systematically within the SME especially at the beginning of the process of entrepreneurial globalization (for example, the transparent internal communication concerning the planned foreign and the new global activities in the framework of an associate gathering).
- There is a direct relation between the possibility of entrepreneurial globalization and the organizational structure and the human resources of the SME. To that belong as well the general organizational and structural capacities of the SME as the necessary increased qualification of the employees (for example: administrators for export/import, language courses, intercultural training, global mindset and globalization competencies etc.) and especially the willingness of the management to take additional costs for further internal and external investments (for additional foreign subsidiaries: shortage of the resource “time” as a result of, for example, the executive’s absence for several weeks).
- The question of financing the planned foreign and global investments is also a central criterion for the decision whether there is a positive or negative potential of globalization of a SME. An increased leverage in the framework of a changed quantitative and qualitative orientated credit rating for the SME (Basel II) complicates the financing of globalization activities even more. In general, several federal states and state-owned banks offer loans for external financing of the globalization efforts. Depending of the form of the company, in the framework of self financing the stock of the company can be increased by a new distribution of shares or by deposits of the partners.
- So, the competence and ability for entrepreneurial globalization refers to the particular resources, the aims of the company, the business segment and the position of the SME in the competition (using for example the five-forces model, SWOT analysis and the portfolio analysis).

FIGURE 1: Relevant sections for entrepreneurial globalization (Own figure)



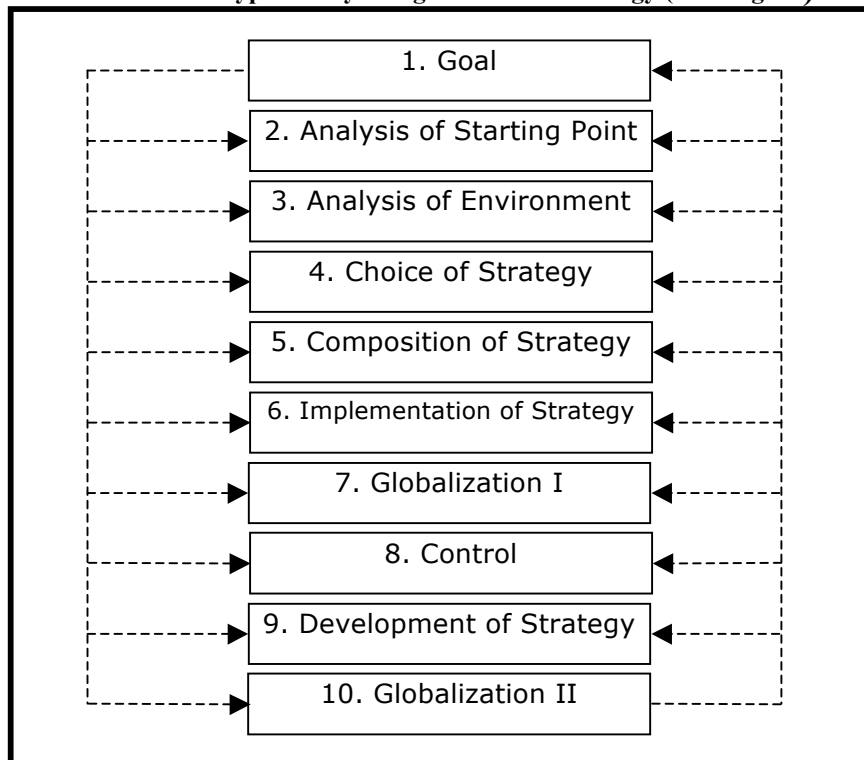
To summarize it, within the survey four central internal sections were discovered in which the entrepreneur has to develop detailed clearness about: 1) general management capacities 2) number and qualification of the employees 3) organizational structure and 4) finance (see fig. 1). This theoretical analysis fits with the results of the empirical survey. Four fields were mentioned by most of the interview partners as important for the development of a globalization strategy as basis for their successful entrepreneurial globalization. In all of the four sections the central question of preparation of the development of a globalization strategy of the SME has to be answered: “Are we as a company really ready for a “going global”?”

DEVELOPMENT OF GLOBALIZATION STRATEGIES

Enterprise specific life circle

The next step after a positive decision for a “going global” is the strategic development and the operational implementation. While big enterprises for example from the German automotive industry already dispose of a tradition of globalization and with that of adequate resources for the corporate global evolution (Grube, 2003) to reach a global level SMEs are missing consistent globalization strategies. Already at the beginning of global activities and in particular during the development of an explicit globalization strategy there are deficits in SMEs (EU, 2004). This keeps independent from the level of strategy, may it be the corporate strategy or the following strategies for business areas and functional areas. Apart from the difficulties like for example the correct estimation of the market volume and the market potential the choice of partners abroad or the lack of globalization know-how (knowledge about the country, laws, language, culture, etc.) are special management challenges which can cause difficulties for SMEs in the process of entrepreneurial globalization (Göker, 2000). Thus, the focus of the management is more on marketing activities respectively questions of technology (quality, technological transfers) than on strategic adjustment. The entrepreneur’s personality plays an important role during the globalization of the enterprise (Nahrendorf, 2008).

FIGURE 2: Ideal type of way of a globalization strategy (Own figure)



The research shows that 27 of the 30 interviewed companies would not exist anymore if they wouldn’t have had an explicit or implicit strategy for their entrepreneurial globalization. The vision of the founders was therefore an important issue. The vision includes in the main cases a global view which reduces the notional entry-barriers.

For the analysis of the above mentioned deficit of strategic adjustment for example an ideal type of action-phase model with counter current processes can be used, which has to be adapted to the specific SME and the company specific situation of the founders and managers (see fig. 2).

In the beginning of each and every corporate activity (1) stands the vision of the founder(s) and the current manager. An analysis (2) of the corporate starting point and the resulting aspects is accompanied by an environmental analysis (3), leading with the next steps to the strategy and the choice of strategy (4). The following process of working out a globalization strategy has to be integrated into the already existing corporate strategy.

After that, related to the expansion of the business a general strategy (5) (for example timing strategy) gets verbalized and worked out in detail (for example strategy for market cultivation respectively market entry). The next step is the implementation of the strategy (6), which is reflected in the embodiment of internal organization (e.g. the designation of a responsible for the globalization), implementation of the strategies and the action programs. This leads finally to the desired entrepreneurial globalization according to the developed definition (7).

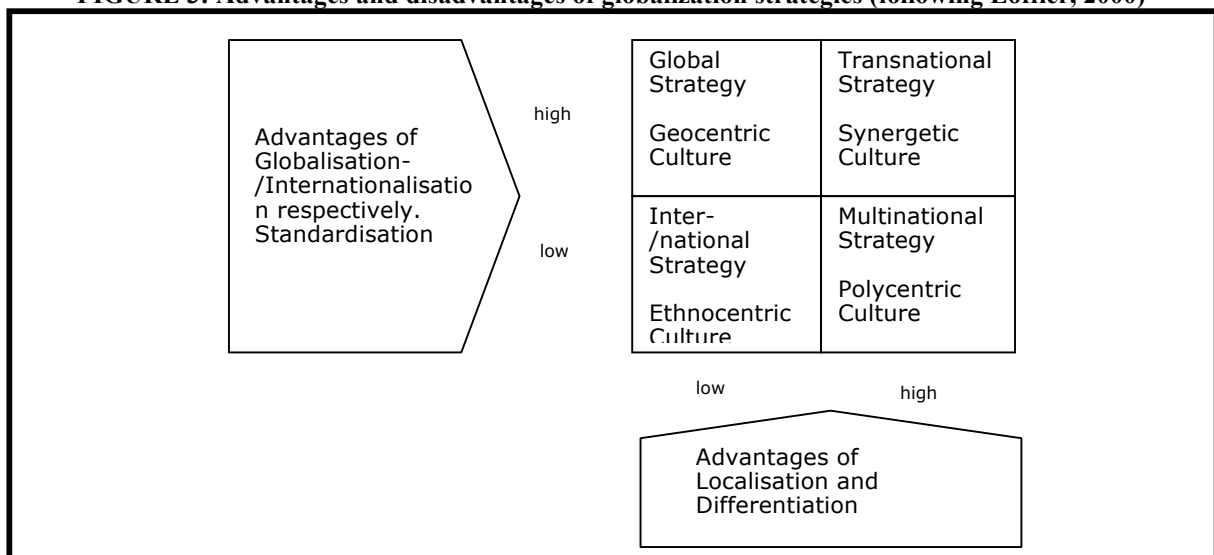
The next step is the permanent control (8) (variance analysis) of the executed global activities. By means of that, frictional losses can be discovered and optimization potentials of and so called synergy potentials can be made available. The new insights lead to a handling (9) of the given and with that to a revised and enlarged globalization strategy. This strategy can lead, under certain circumstances, to a withdrawal from already edited markets or to a completely new adjustment. Finally, however SMEs can reach the entrepreneurial globalization (10).

An entrepreneurial globalization of a SME is obligatory. Not taking part would mean stagnation respectively a step back for the enterprise especially with respect to the increasing foreign competition on the traditional company specific market. In this context we can speak of the so called push- and pull-factors. While push-factors focus on the limits of the home market, the pull-factors focus on the customer who for example demands from the SME to follow him to different foreign markets (Bell, 2008). The SME has in this regard almost no other choice than to follow its main customer into the “new world” (that happened to several German SMEs especially in the automotive branch respectively the automotive supplying industry). The interviews show that in most cases the companies are going global, because of the requirements of their costumers. The pull-factor of an international or global demand seemed to be one of the most important factors for an entrepreneurial globalization (Yeung, 2005).

Business sections in the framework of a globalization strategy

For the adaptation and specific deepening in the framework of globalization of enterprises and the enterprise specific products there are yet even more strategic instruments (Porter, 1989) depending on the size of advantages of the globalization and on how far local adjustments are necessary. Four ideal types of globalization strategies can be specified (fig. 3). With the help of portfolios the adjustment of a globalization strategy can be summarized. This includes advantages or a global product strategy starting from a global (a) over a trans- (b) and an international (c) to a multinational (d) strategy. At the same time the portfolio provides an overview of standardization respectively differentiation advantages in the framework of the chosen globalization strategy.

FIGURE 3: Advantages and disadvantages of globalization strategies (following Löffler, 2000)



In the framework of the **global strategy** several small and country specific adjustments have to be taken (Ghemawat, 2007). The market is considered to be standardised and mostly homogeneous. With - in this case - products that are standardised worldwide (global brand) advantages of costs and prices for big sales volumes can be achieved (Backhaus & Büschken & Voeth, 2003). In connection with the global strategy entrepreneurial

decisions become centralised (Schneider, 2004). The management has to establish in this respect an integrating overview and to observe the sum of the success in all the countries/markets as one (geocentric culture). The result is, that the single maximization of the success of each and every country/market has to be achieved (acceptance of sub optimization for certain parts in favour of the common optimum).

Within the **transnational strategy** standardization advantages (economies of scale/economies of scope) are used as well as national differences. In this way, advantages of economies of scale through standardization of processes and advantages of networks for example with the simultaneous usage of brand names can be generated. Regional centres of added value have to be linked in the framework of this transnational strategy and have to be adjusted in a way that denotes a synergetic culture. With the realization of arbitrage effects (different costs for factors or productivity in the different countries) this strategy can be used as well for national differences (Ghemawat, 2007).

Concerning the **international strategy** little advantages are gained by global standardization and local differentiation. The advantages could be acquired deeply and used by revising of the strategy. The binding to the home market is still very distinct. A few countries are handled via export. Chances on foreign markets get used partially with the appearance of occasional opportunities (for example the order of a client from abroad). Preferred are countries which have similarities to the home market. The international strategy is linked in literature with the ethnocentric culture. The potentially existing foreign plants are marked by the visions and decisions of the holding company.

In the framework of the **multinational strategy** the enterprise adapts itself to the specialities of the current foreign market. The products are aligned specifically to the countries as well. The organizational structures are strongly adjusted to the specific countries and every strategy is being specified and adapted to each country. Cultural differences within single subsidiaries are accepted and as a result of that decisions are made decentred (polycentric culture). That means for the executive that a build-up of a complete organization for a country is linked to a relatively high autonomy of the subsidiaries and, coming with this, only little meaning of the headquarters in comparison to a global strategy. That tends to result as higher entry barriers for other following suppliers (Welge & Holtbrügge, 2001).

For the management, not only in the headquarters but on site as well, this results in an amount of sensitivity and flexibility regarding market developments by using slots for local suppliers. Especially the deliberate usage of limited action enables SMEs to develop lucrative slots. It is an ideal starting point for SMEs on the way into globalization and leads normally from a local to a multinational and even to global business. The starting point is a definition of a market strategy in the framework of enlarged internationalization strategy. A next step can be the development of regional concepts (transnational strategy) to a possible global strategy, finally (Kutschker & Schmid, 2005).

The here mentioned globalization strategies point out how single SMEs could act ideal typically in the environment of the already global competition. In practice mixed strategies are used primarily. Non of the four mentioned ideal typical strategies is followed exclusively. Intersections result from an adaptation to the particular reality of the company.

Ability of globalization of a product

A further central step on the way into globalization is the examination of the product with respect to its ability of worldwide distribution or sale. For the examination of the ability of globalization an appropriate classification of the markets in which the product should be launched are useful. The more precise the classification is the more precise the factors of influence will be visible - like for example governmental regulation, sociocultural and local peculiarities such as taboos. An alignment onto the target group brings competitive advantages during the upcoming globalization. As a conceptual method one of the three-dimensional approaches is suitable to classify the business areas and for the successful globalization of products:

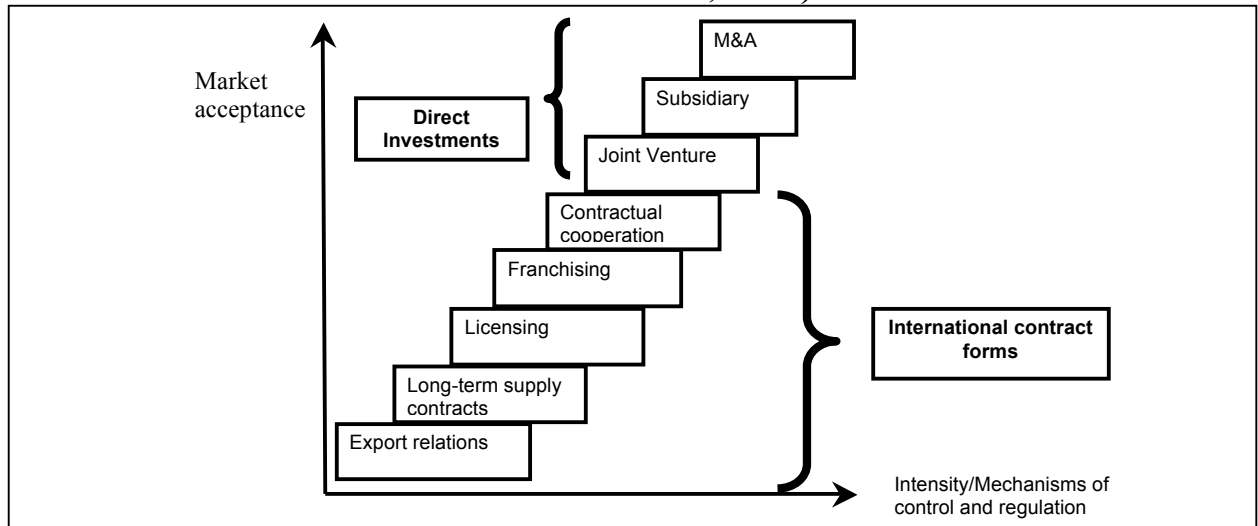
- A first dimension for the classification of business areas are the challenges which are to be fulfilled in the different client sections (consumer functions).
- A further approach is formed by the client sections which map the heterogeneity of the demand. The criteria for that have to be chosen in such a way that the conclusions regarding to buying behaviour, buying criteria, marketing and sales efforts, own strengths and weaknesses can be drawn.

- As a third dimension for the classification of single deals, the method respectively technology of the underlying duty is suitable.

EXAMPLES OF GLOBALIZATION STRATEGIES

Naturally, a general answer on the question of the “right” globalization strategy can not be given (Schmidt, 2004) but the following examples of different companies show successful ways and instruments (see fig. 4).

FIGURE 4: Procedures and instruments of globalization (following Gutmann & Kabst, 2000)



Globalization of export: a trading firm as a partner

A possibility for a faster globalization of SMEs in the framework of increasing export consists in the cooperation with a trading firm. Normally, the core competence of a trading firm is to notice chances for business independently of the industrial branch to find suitable technologies, products or partners and to build up new business models (Kutschker & Schmidt, 2005). Especially for the market entry in Japan or Asia the partnership with a trading firm is a very effective option. SMEs without extensive contacts and measures benefit from the existing networks and strategies.

The research shows, that export is the most common strategy for SMEs internationalization. 83% of the asked SME say that export is of importance for their internationalization. But also the export with a trading firm as partner is of importance for the asked companies. In this research 61% mentioned that this is of importance for their internationalization.

Global chain of economic value added through licensing

Another component is pointed out by the following example of one of the world’s biggest producers of footballs. This enterprise doesn’t only produce footballs in the Pakistani city of Sialkot the so called “world’s capital of football” but also in the Thai industrial area of Sarirasha. There the Japanese license-taker of the German enterprise produced the footballs which were used for the World Cup 2006 in a global chain of economic value added. Even though only ten percent of the production capacity of the factory is used by this order the German standards concerning lean-management or even social and environmental standards could be implemented successfully and the high product quality standards could be fulfilled.

This example shows not only a way into the globalization on the basis of the licences strategy but underlines also the possibility of a connection of worldwide desirable standards.

For SME licensing seems not just an important strategy. Just 25% of the asked SME say that this is of importance for the companies' internationalization.

Global forms of partnership: franchise/joint venture

Out of the different forms of partnerships the most relevant and interesting ones in the framework of a globalization of SMEs are besides the already mentioned trading firm especially franchise and joint venture (Peng, 2009). In this context, of many factors which are important for a successful partnership the following ones are seen as causal for the success respectively failure:

- The ability of the partners to agree to common aims
- The philosophy of the partners and the partnership (common values)
- The coordination between the partners in the partnership
- Performance and potential of the partnership
- Franchise-/partnership contracts
- Mutual trust and mutual commitments
- Style of leadership/management in the partnership
- Meaning of the planning
- Handling of special necessities/problems
- Coordination of business processes

To build up a successful global partnership the following steps have to be kept in mind and be defined in the framework of the partnership:

- Expected economic value added in the foreign market
- Wanted amendments/mutual amplification of interests
- Organizational and financial resources of the partner
- Degree of the wanted control concerning own strategic resources
- Limits of tolerance for accepted risks with respect to time aspects
- Strategic meaning of the market at the partner's location

Only when for all these points a clear answer can be given a partnership respectively in the case of franchise partnerships is on the way into global presence reasonable and has good perspectives to be economically successful.

How difficult but nevertheless successful such a globalization strategy can be is shown by an example on the market of luxury goods and in particular the jewellery branch. A SME from southern Germany made it with the above mentioned criteria in the framework of a franchise-based concept within ten years to become a "hidden champion" (Simon, 1996) and with that to the world market leader. The current expansion rates are lying in the high double digit section. The basis for this enormous success is the (inevitable) diligence selecting their franchise-partners. The management of the SME sees "common ideals" as the crucial criterion for a well-working franchise-partnership. Besides, the global chain of economic value added - the so called glocalised sales strategy - the "individualised mass production" and the high world wide product acceptance are playing an important role.

The first results of the research show that franchising is not of importance for German SME in this sample. By contrast, Joint venture is an important strategy for 36% of the asked SME.

Globalization of brands

Another promising approach to take the leading position in global markets is a sophisticated market and product policy (Subhash, 2003). The so-called global-branding-approach contains a product development on the level between local differentiation and global standardization.

Again, an example can be given by a world market leader from southern Germany: The SME became the undisputed market leader for systems technology (electricity supply) within the last ten years. Product and brand are not seen as one but conceptually as parts consisting of a functional product part and a market part. The followed strategy focuses on the grown brand which is being held "à jour" by continuous innovation, new

production techniques and newly developed products. Local needs are not overlaid by the global brand of the SME but acquired and satisfied locally.

In the meantime, additional non-calculable synergy effects have evolved regarding this globalization strategy. Newly developed products having arisen from regional client needs have been adjusted to other markets and have become bestsellers on these regional markets improving at the same time the position of the enterprise on the world market. In this case, the current growth rates are in the high double-digit almost triple-digit area as well. The ten offices in the world are spread strategically over the continents in such a way that one can speak of global market penetration. As an “add-on”, and for a continuous usage of these effects regular company meetings are usually taking place on the particular sites spread all over the world. Apart from the “global-branding” the enterprise is also an exemplar for the “glocalization of factors of success” (Perlitz, 2004).

Globalization of factors of success

A further strategy as the result of a combination of theoretical thoughts and a successful application in praxis is the alignment to the three following factors of success:

- Regular collaboration with the clients to evolve the own products
- Coevally world wide and locally organized customer service with clear concept standard for the respective regional companies (so-called glocalization)
- Build-up of the own enterprise by organized growth and reorientation of the enterprise with every new key innovation

In practice, a German software house has accomplished these factors successfully and labels them as 1. trusted innovator, 2. globalization and 3. Best-run-organization.

More than half of the interviewed firms were able to assign their national factors of success on the international and global level. These factors were in most cases the ability for innovation, a focus on the customers needs coupled with market-monitoring, a flexible reaction on new external developments and the usage of the local innovation for their globalization and vice versa.

Global customer oriented product solution

The especially given flexibility for SMEs to react rapidly and goal-oriented to demands of the customers respectively to problems, can be defined as a strategy for customer oriented solutions (Silvius, 2004). Like this for example, a German middle-sized company that produces machines as well as system solutions for production and testing steps for the manufacturing of micro-electric components recognized that the actual market in principle is partially divided world wide. According to the belief of the management a bigger share of the market can only be reached by a better product solution in comparison to their competitors. This aim should be reached by quality, innovation and productivity.

The management formulates constructive to these vision five global goals for the company (mission, compare to fig. 6):

- World wide satisfaction of the clients
- Enlargement of the world wide market presence
- Continuous product improvement
- Constant improvement of the system
- Optimal cost/performance ratio

The alignment to these world wide goals led to an annual increase in turnover in the dimension of 15% to 30%. This outstanding growth was realized in particular with deeper and constant worldwide customer proximity.

Global values of enterprises

Another globalization strategy is based on theoretical approaches to innovation and continuity. A successful German engineering company, which was interviewed for this research, defines innovation as salable idea which can be implemented very fast. Referring to globalization, the proximity to customers is a necessary condition for the trust into the own brand and to signalize continuance to the customer. Continuance as a willingness for

continuous change contains in this enterprise also to be always the ideal and to convey values. For this company that has developed out of a big middle-sized company the existence of these three factors (trust into the brand, signaling continuance to the customer and the willingness to continuous change) lead to world wide success (Leibinger, 2005).

ENTERPRISE SPECIFIC IMPLEMENTATION

The market entry and the following continuous globalization can be systematized with an increasing degree of foreign business, for example into different levels like export, franchising, licensing, direct investments (see fig. 4). For the company's further and deeper entrepreneurial globalization additional aspects have to be recognized (Hentze & Kammel, 2000):

- Acquisition-oriented reasons: Development and preservation of resources
- Product-oriented reasons: Basically advantages of rationalization and costs
- Sales-oriented reasons: Development and preservation of foreign markets including situation specific competition strategies
- Environmentally oriented reasons: Usage of country specific frameworks in a cultural, technological, legal or economical way
- Factor specific reasons: Development of new resources in the sections of research, development and staff

Generally, it should be stated that the examples and instruments mentioned here as a basis for globalization of SME have to be adjusted carefully with respect to the company's specific situation. As decision guideline table in the sense of benefit analysis (see fig. 5) can be helpful. Depending on the SME, company specific descriptions and attributes of quality with already done globalization-analysis' (see figs. 1 to 4) can be set into relation with the SMEs specific areas of function. The relevance for the globalization reflects thereby the subjective rating of the particular management. The entrepreneur decides by himself via weighting (all functional areas = 100%) about the meaning and expected effort (for example: high=6, middle=3, low=1) of the particular central factors in the framework of its globalization (management, organization, costs). In the end from the multiplication of the weighting and estimation of the effort it becomes the numerical sum of the values. Derived from that an executed descriptive company specific self-estimation and ensuring the steps to operationalized in the framework of further globalization of the particular SME (see fig. 5).

FIGURE 5: Table of examples- decision guidance for activities of globalization

Relevance/Effort for the Globalization Functional areas	Weighting	Management	Organization	Associates	Costs	Company specific Estimation
Research & Development						
Human Ressources						
Acquisition						
Production						
Sales						
Logistic						

CONCLUSION

The process of economic globalization has to be seen as a fact. In the beginning of this article the thesis of the necessary optimization of global entrepreneurial activities of SME was postulated. For SMEs it is necessary to work out an adequate globalization strategy. Also if in the beginning the SME doesn't seem to be affected by the

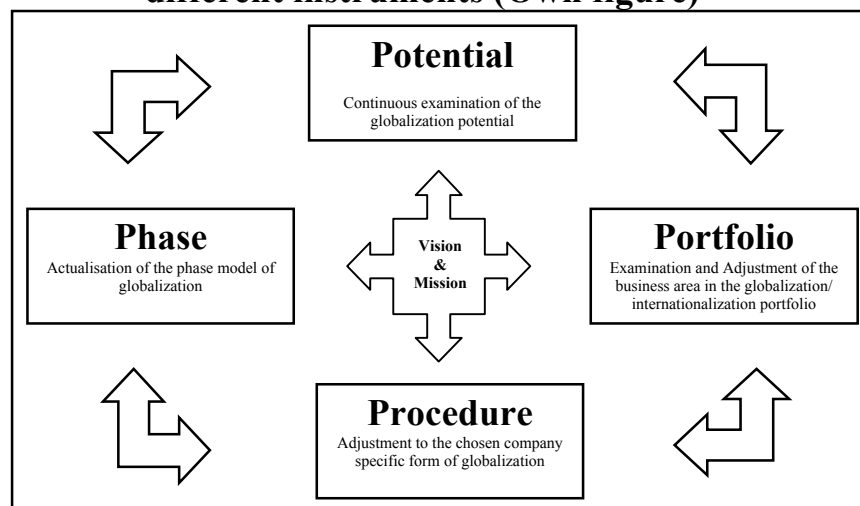
process of globalization. In the framework of globalization strategies, different variations and instruments which are already implemented successfully by different companies have been shown in this article.

According to already existing experiences, the adoption of these strategies for SME with particular company specific adjustments is a passable way. Yet if these adjustments are not implemented especially in the areas of employees, organizational structure, finance, management, product quality, innovation and demands of the market the entrepreneurial globalization of the SME will fail.

It should be the goal to see entrepreneurial globalization as a chance to find the right position on the world market - even for SMEs. The shown strategies and instruments can give a first overview. A combination of these shown strategies increase the possibilities of success during the “going global”, while the beginning, respectively the choice of the starting point of the own globalization (see fig. 6) and the latent dynamical interdependent process have to be defined for each and every SME.

The analysis instruments described in this article have been integrated in the following figure. The different areas of entrepreneurial globalization Potential (see fig. 1), Phase (fig. 2), Portfolio (fig. 3) and Procedure (fig. 4). They should have been worked out before the combination and necessary conditions for the shown processes of progress in the framework of entrepreneurial globalization. For all four areas, the essential questions regarding to a future globalization strategy and the following globalization of the enterprise should be clarified:

FIGURE 6: The 4-P-modell: Process of combination and adjustment via different instruments (Own figure)



- Which globalization potential do we really have regarding to financing, management, organization and associates?
- In which phase of globalization are we now?
- Using which business segment strategy in the framework of globalization portfolio do we want to become active?
- By means of which operational convertible and for us most suitable procedure (form/instrument) of globalization (licensing, franchising, joint venture, M&A, etc.) do we want to implement our globalization strategy?

For a constructive first estimation of efforts for the globalization of the SME in the particular areas as above mentioned decision guidance (table 1) can be accomplished. For a successful entrepreneurial globalization these four functional or factor oriented areas have to be seriously proved. If the gap between the expectation/visions and the entrepreneurial reality is too big, the process of entrepreneurial globalization might fail.

Further success indicators beyond the described ones to be figured out in the areas quality, production, staff and environment. The standards in these areas achieved in the home country are already an advantage on the way to a globally successful SME. They serve a regulated competition as well as the protection of consumers and producers (Beschorner, 2002). These aspects can be standardized world wide. Additional advantages of time,

technique and product quality in combination with ecology and fair working conditions increase the sales and at the same time increase the reputation of the then globalized SME.

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HOW TO IMPROVE INNOVATIVENESS OF SMALL AND MEDIUM ENTERPRISES

Zlatko Nedelko and Vojko Potocan
University of Maribor, Slovenia

ABSTRACT

In current economic conditions, one of the primary aims of strategic management in organizations is to improve their performance. This is especially applicable for Small and medium sized enterprises (SMEs) which need continuous innovation in order to survive and further develop. In that frame is of crucial importance innovativeness of SMEs. Innovativeness of SMEs and their members is dependent upon synergic set of factors, whereas most fundamental and/or underlying are personal values of SMEs members. First step in the process of improving innovativeness of SMEs is therefore holistical understanding of innovativeness and/or preferences of SMEs members towards innovativeness. In that frame this contribution discusses two theses: 1) Personal values of SMEs members are fundamental in/for understanding innovative thinking, and 2) SMEs members' must innovate their values in order to retain/improve SMEs innovativeness. The paper presents a possible framework for innovating personal values of SMEs members in order to improve innovativeness of SMEs. Paper also lays and important ground work for further research of impact of personal values on SMEs members' innovativeness.

Keywords: *entrepreneurship, globalization, innovation, innovativeness, small and medium-sized enterprises, members values*

INTRODUCTION

Strategic management is the process of ensuring that an organization possesses and benefits from the use of an appropriate organizational strategy (Collins, 2001; Chesbrough et al., 2006; Chesbrough, 2009). Therefore an appropriate strategy is one best suited to the needs of an organization at a particular time. In the current economic conditions (i.e. global economic crisis) the primary aim of strategic management in organizations is therefore to cope with changed economics conditions. Changed conditions require quick and appropriate actions, in order to achieve superior fit between the organization and its environment so as to achieve organizational goals. In the frame of strategic management in organization, one among most important and crucial area of management working in the current economic conditions is also designing of appropriate behavior of SME's members. Currently, frequently emphasized dilemma of researching SME's member behavior is question of their innovativeness. In selected context we are focusing our attention on examination of the innovativeness problematic in the framework of SMEs members' personal values, since SME's members personal values are one among most important drivers of their working and behavior in organization.

An organization is not only a business system (BS), which it is when the selected viewpoint of dealing with it exposes its business attributes. Called with different names (such as firm, enterprise, company) business systems (BSs) became very influential institutions of the modern age (Schumpeter, 1934; Kuratko, 2008). Since the great majority of BSs are small and medium enterprises, it is almost impossible to reach any goal in the society without engaging also SMEs (Hebert & Link, 1989; Fink & Kraus, 2009). Currently, in Europe about 99 % of all enterprises are SMEs, employing beyond 50 % employees (Potocan, 2005; Potocan & Mulej, 2007; Potocan, 2008). Demands over SMEs, too, have developed from efficiency by synergetically adding quality, range, uniqueness, and sustainability, in recent decades (Collins, 2001; Potocan & Mulej, 2007). This requires innovations all the time.

Innovation is defined as every novelty found beneficial in the experience of its users (Afuah, 1998; Rogers, 2003; EU, 2006). Or, in other words: Innovation = invention + commercialization (Afuah, 1998). Business practice proves that innovative business (= business style based on innovation rather than routine) tends to yield much more value added than a routine-based one. It is especially crucial as a way out of the current economic crisis. Therefore, the modern BSs face two important challenges, at least: how to satisfy demanding customer's requirements, and how to make their own business requisitely innovative to make customers happier with it than with competitor's supplies.

Synergy of findings from research of both challenges says that one-sided professionals/humans fail to perceive that success depend on systemic thinking based on interdisciplinary creative cooperation. It is helpful to develop and maintain innovativeness and creative cooperation of all organizational members.

Therefore, SMEs must create and implement holistic working and behavior like or even more than the bigger enterprises. Meeting these requirements depends on influential humans, not only on the institutional order alone. Thus, most SMEs must create innovative behavior and working if they wish to survive in the modern environment.

We discuss here the issue of improving the level of innovativeness on the basis of knowing: situation in literature about innovation, diffusion of attributes of innovative enterprises among SMEs, and innovativeness of organizations' members in Slovenian organizations, especially in SMEs.

LITERATURE REVIEW

Literature on innovation abounds. There are many more authors and contributions about different aspects of the innovativeness of SMEs today than ever before (e.g. see Lester & Piore, 2004; Leydesdorff, 2006; Sheshimski et al., 2007; Fink & Kraus, 2009; etc.). Pyka & Scharnhorst (2009) offer an interesting new approach to change and learning. Leydesdorff (2006) offers an interesting new concept of modeling, measuring and simulating the knowledge-based economy. Schwartz (2006) is trying to help people be more entrepreneurial (and has already sold over four million copies of his book, which is a sign of its own how far many people are from the capacity to master their destiny in the innovative society). Lester & Piore (2004) are warning – under the label of the need for capacity of interpretation – that the contemporary American education lacks schooling that fosters the capacity of creative interdisciplinary co-operation, which is a precondition for success in the innovative efforts. Nussbaum (et al.) (2005) raises awareness that ‘despite spending huge sums on R&D, most corporations have dismally low levels of innovation productivity – up to 96 percent of all new projects fail – and offers suggestion how to get better at this. McGregor (2006) points to attributes of the most innovative companies of today. Huston & Sakkab (2006) are given room in Harvard Business Review to inform about their new model for innovation. Business Week decided to focus on innovation for its 75th anniversary issue under the label “The Innovation Economy” in its special report. In June 2006 Business Week published its inaugural issue of IN: Inside Innovation with these words from its editor: “We dedicate ourselves to the proposition that making innovation work is the single most important business challenge of our era. Our goal is to make a meaningful difference in the difficult journey toward building innovative business cultures.” (also see Nussbaum et al., 2005; Potocan & Mulej, 2007; Kelley, 2009). The International Society for Knowledge and Systems Science links knowledge with holistic thinking (e.g. see Potocan, 2005; Gu et al., 2006; Potocan & Mulej, 2007). Conferences STIQE, which have taken place nine times so far on a biannual basis link systems thinking, innovation, quality, entrepreneurship, and environment (Rebernik et al., 1992-2008; Potocan & Mulej, 2007; etc.).

We could no way include all references on innovation in economic, sociological, psychological and similar literature; it is no longer a technological topic only. IBM (2006) reports on a world-wide survey finding that innovation of business is even more crucial than the technological innovation (see also Potocan, 2008; Shane, 2008; Conway & Steward, 2009; etc.). Here, we are going to put another question: is it enough to deal with the innovation process, innovative business, and innovative society, once we want to attain the holism in consideration of the contemporary life and trends; our response is clear: no, it is not.

In other words: SMEs becoming more innovative mainly on the base of innovative working and behavior of their members. The important part of improving the level of innovativeness of SME's members also presents importance of innovativeness for all SME's members, and state (i.e. level of current) of their values connected with innovativeness.

DIFFUSION OF ATTRIBUTES OF INNOVATIVE ENTERPRISES AMONG SMEs

Entrepreneurship can be considered:

- A legal feature, i.e. ownership of enterprises, such as family ones (e.g. see Kuratko, 2008),
- An economic feature, i.e. searching for, creating, and using new business opportunities to make innovations (e.g. see Sheshimski et al., 2007), or
- A psychological and sociological attribute of the entrepreneur as a person (e.g. see Collins, 2001).

One-sided attempts of behavior (i.e. perception, thinking, decision making, communication, emotional and spiritual life, and action) are normal with the normal specialists, if they do not want and/or know how to cooperate with other specialists who are different from them, and make therefore oversights and finish in fictitious holism causing mistakes (from e.g. bad cooking all way to world wars). Owners, entrepreneurs and managers of SMEs are often quite close to this danger: they do not have many co-workers, they have often established their own SMEs because they had no other chance to survive after losing their jobs as employees (Rebernik et al, 1992-2008; Rebernik et al., 2000-2009). Often, this means that they are very good in a technical profession, on which they intend to live, with full right, but less good or even completely uneducated in running a SME (Nussbaum et al., 2005; Basadur & Gelade, 2006; Kelley, 2009). An entrepreneur produces an enterprise rather than a product; his professionals produce the product as a part of his/her basis to produce a SME, in the first phase (Chesbrough et al., 2006; Gloor, 2006; Chesbrough, 2009).

Entrepreneurial SME's must in the new economic conditions radical redefine their goals and tasks, rethink areas of their own work, and innovate the characteristics of their own operation, like as synergetic entity of:

- Understanding of SME itself - SMEs must be obviously viewed as inventions that are supposed to become innovations, not only their products.
- All influential stakeholders of SMEs must be persuaded in a (innovative) process for the transition from invention to innovation to happen.

The modern circumstances no longer allows for routine-loving owners, entrepreneurs and managers, like a long-term stability used to for millennia (Fagerberg et al., 2006; Meyer, 2008; Conway & Steward, 2009; Potocan & Mulej, 2009). Therefore, the new bases of a modern ownership, entrepreneurship and management may include serious novelties aimed at becoming management innovations such as (Basadur & Gelade, 2006; Potocan & Mulej, 2007; Potocan & Mulej, 2009):

- Owners, entrepreneurs and SME's members must thoroughly rethink and innovate their operation to improve their SMEs competitiveness, permanently create and sell new products and services, which must become innovations;
- Owners, entrepreneurs and SME's members must create operation globally, and act locally; they need direct links with their end users, to know both their market and the broader consequences of their action in time;
- Owners, entrepreneurs and SME's members transition from the commanding hierarchy to the 'process-based' specialization and interdisciplinary creative cooperation is of special importance, in order for a SME to activate capacities of every member and partner in the value-chain;
- Owners, entrepreneurs and SME's members must reconsider their absorption capacity for inventions and other knowledge from research organization, which are their potential and/or real partner in research and development (R&D), because most SMEs cannot afford R&D departments of their own, but need fresh knowledge and information on technology, marketing, accountancy, law, etc.;
- There is a growing need for the interdisciplinary capacity of owners, entrepreneurs and SME's members (in SMEs) (e.g. systems thinking, inter-cultural capabilities and knowledge, permanent education and training, formation of personal standards of ethics of interdependence and the standards of entrepreneurship behavior, capacity of anticipation based on a broad interdisciplinary cooperation, cooperative and team work capacity).

For above mentioned reasons, owners, entrepreneurs and SME's members must changed their values, culture, ethics and norm of their work and behavior (and perception of its role, importance and characteristics) to meet the newly emerging conditions of business operation.

But, where we are with changing of basic values (for innovativeness and innovative working and behavior of) SMEs' members in Slovenia?

INNOVATIONS AND INNOVATIVE BEHAVIOR IN SLOVENIAN ORGANIZATIONS

SMEs cannot avoid the modern global economy and its demand for innovative business as a precondition for competitiveness. Given their small size and related pool of professionals, SMEs need to work very hard on members' innovativeness and related personal traits. Making a SME successful must be considered as an invention-innovation-diffusion process that tackles: the businesses mix of the given size, the SME as an entrepreneurial achievement, and entity of values/culture/ethics/norms.

Thus all preconditions concerning both the content and the process of innovation must be considered, which requires the holism and therefore systemic rather than one-sided thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, entrepreneurs, SME's members must also be innovated along with their knowledge.

Therefore the following hypotheses are postulated:

H1: Members of Slovenian SME's consider innovation as an important characteristic of their working.

Figures from research on diffusion of novelties aimed at becoming innovations (Afuah, 1998; Lester & Piore, 2004; McGregor, 2006) include into rather innovative recipients of novelties only about 18 % - 30 % of all adults. This means that new concepts such as economic entrepreneurship replacing routine-loving behavior (including employment without a lot of own responsibility) are difficult to implement.

From the viewpoint of current situation in Slovenia, the level of understanding and acceptance of innovations among SME's members is relatively favorable. About details of general framework, institutional conditions for innovativeness and state of innovativeness in Slovenian organizations see Rebernik, et al. (2000-2009) and Potocan & Mulej (2007). The results of survey of personal values of members in Slovenian organizations in 2010 indicate that members of organizations consider innovations (and innovative conditions) as important characteristics of their working.

Innovative thinking of SME's members is importantly dependent upon synergetic whole objective factors (e.g. organization goals, requirements of owners, shareholders) and especially subjective starting points of management (see Mulej, 2000). In that frame we can emphasize values of SME's members, as one among crucial factors, which influence innovative thinking of SME's members.

This lead to the conclusion that SME's members, based on their personal values, recognize and/or be aware of need for innovative thinking, which is executed though their working and behavior in organizations. Key factor in that frame are personal values of SME's members, which are either favorable either unfavorable to innovative thinking of SME's members.

Based on our previous researching and cognitions of others (see: O'Reilly et al., 1991; Lester & Piore, 2004; etc.), we identified following set of criterions for examination of innovative thinking:

- SME's members stimulation for creativity;
- Openness of SME's members for new ideas and other's knowledge;
- Benevolence to changes;
- Perception of risk;
- Innovativeness as a value.

H2: The personal values of SME's members support innovative thinking of SME's members in Slovenian organizations.

Figures from research of entrepreneurship and innovativeness include finding that about 40 % of the adults in a society must be entrepreneurial persons to make enterprises economic rather than only legal entities, called enterprises (Rogers, 2003; Rebernik et al., 2004; Chesbrough et al., 2006; Chesbrough, 2009). This percentage must be achieved by innovation (as a process) of human values, which will not be a novelty yielding no benefit to its users, but an innovation (as outcome). The results of survey of members of Slovenian organizations in 2010 indicate that personal value of organizations' members influence (and/or support) innovative thinking of members in Slovenian organizations.

Based on management literature, and above mentioned conclusion, we can conclude that there is (indirect) link (and/or relationship) between values of SME's members and innovative thinking of SME's members (see: Mulej, 2000; Mulej, 2007; Potocan & Mulej, 2007). We can assume for our research that is possible to assign (more or less) significant personal value for support of innovative thinking.

Based on presented cognitions and our experiences, we identified several (most probably) relationships between items (which constitute construct innovative thinking) and selected personal values of management) (see for example Katz, 2003; Gloor, 2006). Cognitions are summarized in Table 1.

Table 1: Significant values for innovative thinking

Innovative thinking	Significant personal value
SME's members stimulation for creativity	Creativity
Openness of SME's for new ideas and other's knowledge	Broad-minded
Benevolence to changes	Dynamic life
Perception of risk	Daring
Innovativeness as a value	Innovativeness

METHODS

Based on our cognitions presented above, we include in our sample SME's members. Our sample consists of 260 members of SME's in Slovenia. Data were obtained through a field survey of personal values of SME's members in Slovenian SMEs in 2010. Sample included SME's from all Slovenia (i.e. a relatively representative regional coverage; sample met the basic-activity structure of Slovenian SME's, with a good fit to the industry-based structure of the Slovenian economy). According to proposed hypotheses we measured personal values of SME's members and innovative thinking. More facts about survey are available by the authors of this contribution.

For measuring personal values "The Schwartz Value Survey (SVS)" was used (Schwartz, 1994). To the original SVS, which consists of 56 items, we add "innovativeness" as a value. Respondents rate each personal value, using a 9-point Likert-type scale, ranging from "opposed to my values" (-1) to "of supreme importance" (7) (see: Ralston et al., 1997; Yammarino et al., 2005).

For measuring "innovative thinking" we identify construct "Innovative thinking", based on different prior studies of innovativeness (see: O'Reilly et al., 1991; Potocan & Mulej, 2007). 5 items in construct are measured using 7-point Likert-type scale, with anchors refereeing to low innovative thinking (1) and high innovative thinking (7). Items in construct assess SME's members stimulation for creativity (1 – not supporting; 7 – supporting); openness of SME's members for new ideas and other's knowledge (1 – refusing; 7 – accepting); benevolence to changes (1 – don't support; 7 - support); perception of risk (1 – aversive; 7 – preferable); and innovativeness as a value (1 – low; 7 – high).

For examination of the impact of personal values at innovative thinking, we identify relationships between selected personal values (i.e. creativity, broad-minded, dynamic life, daring, innovativeness) and items in construct "innovative thinking".

For analyzing date several methods were used. Based on tests of normality (we used Kolmogorov Smirnov test), we can conclude that all items (i.e. items included for testing both hypotheses) are not congruent with normal distribution (see for example Argyrous, 2006). Since assumptions about normality are markedly violated, we used adequate non-parametric statistics tests (when applicable). In that frame Spearman's correlation coefficient (rho) was used for measuring association between selected item about innovative thinking and assigned personal value of SMEs members. We used Cronbach's alpha for measuring reliability of construct in Hypothesis 1 (i.e. innovative thinking). More about utilized methods for data analysis see in Argyrous (2006).

RESULTS OF SURVEY

Results for Hypothesis 1

H1: Members of Slovenian SME's consider innovation as an important characteristic of their working.

For measuring "innovative thinking" we identify construct "Innovative thinking", which consists of five items (see above). Of the total 260 cases all were processed in analysis. Cronbach's alpha is 0.806, which indicates high overall internal consistency among the five items representing the Innovative thinking construct.

Table 2: Mean values for “Innovative thinking” items

	N	Minimum	Maximum	Mean	Std. Deviation
Management stimulation for creativity	260	1	8	6,50	1,511
Openness of management for ideas and knowledge of employees	260	1	8	6,83	1,369
Benevolence to changes	260	1	8	6,53	1,482
Perception of risk	260	1	8	5,63	1,623
Innovativeness as a value	260	1	8	6,63	1,611
Valid N (listwise)	260				

Based on obtained results we can draw several tentative conclusions about Innovative thinking of Slovenian SME’s members:

- Among several items is most important openness of SME’s members for new ideas and other’s knowledge, while perception of risk is the lowest;
- SME’s members are willing to accept new ideas and other’s knowledge (i.e. from environment of organization, from other members of organizations), since current situation (e.g. coping with crisis; post-transition period of organization transformation) require mobilization of all available ideas and knowledge in organizations in order to survive in fierce (e.g. emerging, global) competition. On the other hand, accepting (also) ideas of other members is important prerequisite for innovations in organizations and especially SME’s;
- SME’s members stimulate creativity of other member of SME, since creativity is central to innovativeness. On the other hand SME’s members must be benevolent to changes, since innovativeness is based on (continuous) changes;
- On the other hand SME’s members are not so interested to accept (too high) risk. This could have deeper roots, e.g. in traditional aversive perception to risk among Slovenians.

We support Hypothesis 1.

Results for Hypothesis 2

H2: The personal values of SME’s members support innovative thinking of SME’s members in Slovenian organizations.

In our conclusions regarding Hypothesis 1, we point out several possible relations between personal values of SME’s members and items referring to innovative thinking. That will be outlined in frame of testing Hypothesis 2. For the purpose of researching the impact of personal values on innovative thinking we assign (more or less) significant personal value to each item in construct (see above).

Table 3: Correlation between innovative thinking and personal values

Innovative thinking	Significant personal value	Correlation
1. SME’s members stimulation for creativity	Creativity	r=0.172 (p=0.005)
2. Openness of SME’s members for new ideas and other’s	Broad-minded	r=0.343 (p=0.000)
3. Benevolence to changes	Dynamic life	r=0.106 (p=0.087)
4. Perception of risk	Daring	r=0.124 (p=0.046)
5. Innovativeness as a value	Innovativeness	r=0.293 (p=0.000)

Results in Table 3 indicate that there are significant relationship between assigned personal value and selected item innovative thinking ($p < 0.05$). In one instance (i.e. benevolence to change and dynamic life) a correlation of 0.076 ($p = 0.223$) indicate no relationship. Regarding strength of relationship we can conclude that for relationships 2 and 5 (see Table above) is relationship is quite strong for (used) explorative approach and from our selected view point. Other two relationships, 1 and 4 indicate weaker relationship.

Some tentative conclusions about relationship between innovative thinking and SME's members personal values are:

- SME's members who value creativity (as a personal value) high, put a lot of effort to stimulate creativity of other members of organization;
- SME's members who are broad-minded, are open for new ideas and knowledge of other employees;
- SME's members who give more priority to daring, are therefore more benevolent to changes in organization;
- SME's members, who value innovativeness, are very much concerned with innovativeness and consequently innovative thinking, which they spread among other members of organization.

On the base of our research we can therefore support 4 of 5 identified relationships in Table 3 ($p < 0.005$).

PRACTICAL IMPLICATIONS: SOME SUGGESTIONS FOR IMPROVEMENT OF INNOVATIVENESS

Based on above presented cognitions we can conclude that for improvement of innovativeness of SMEs innovation of personal values of SMEs members is needed. The cognitions about personal values of SMEs members present base for implementation of invention-innovation-diffusion processes (IIDP) in SMEs (Mulej, 2000; Rogers, 2003; Potocan & Mulej, 2009). IIDP presents entity of three phases: (1) discovering ideas and turning ideas into inventions, suggestions, and potential innovations, which is more or less an internal process in organizations, (2) finding the first happy customers ideas to become innovations, and (3) finding many happy customers by diffusion. Successful implementation of IIDP is not possible without innovation of VCEN of (all) members SMEs.

From the whole problematic of improving innovativeness in SMEs we will outline some possible and also most probable dilemmas for innovation of VCEN in SMEs.

But innovation of VCEN is connected with different questions and doubts. The first question includes: "Will the economic system and business politics practitioners accept inventions, if they do not bring solutions, which offer more benefit than used to be the habit so far?"

Many Western researchers of these problems presuppose that the market pressure alone makes businesses, including the economic system and business politics institutions willing and able to absorb whatever new knowledge shows up if they feel that their application of this knowledge will increase their competitiveness due to better efficiency and effectiveness (Rogers, 1995; Mulej, 2000, Katz, 2003; Potocan & Mulej, 2007; Conway & Steward, 2009). Therefore, they claim, it is the role of the government to remove obstacles for competition and to invest in education and training in capabilities, which are needed for people to cope with more demanding markets of products and services. This may be true, if business persons are entrepreneurial rather than routine lovers. The conclusion: modern values, knowledge, including know-how, make a system of preconditions for the institutions (i.e. SMEs) to work properly.

The second question is: In which level we must innovate VCEN, if we wish to improve the innovativeness of SMEs? The individual, organizational, and national VCEN need to be innovated, but not technology only (Mulej, 2000; Potocan & Mulej, 2007; Potocan, 2008). This helps interdependence of mutually different and hence complementary specialists to become visible. A lot of help can come from transforming the marketing-like offices of the economic system and business politics institutions from a service of selling/promoting to a service of providing information, including the one about the research organizations, and thus serving as the bridge between businesses and research organizations.

We do not see the problem in transfer of the narrow professional related knowledge, but in the managerial and organizational questions of SMEs. But the most crucial of all novelties is the following:

- According to its role as the general coordinator and manager of the most general issues of a society, the government defines the framework conditions, including the ones related to the transfer and absorption capacity concerning novelties supposed to become innovations;
- Government can act in this role by commanding, subsidizing, enabling, allowing, but also as a rather big buyer in a buyers' market; the latter role may be the best choice in this case;

- Therefore, government can and should define in its procurement rules concerning supply to all government offices, medical, educational and other public organizations, that only the most innovative organizations may be suppliers.

To be able to succeed, government must also be a role model of innovation. Innovations related to the management style and organizational process and methods can take place in its offices, too, like everywhere else.

The next question is: How to transform invention to innovation, from the view point SMEs? From empirical discussions about any product or service for market, including the new management and organization of services/offices in the economic system and business politics, we briefly conclude (Mulej, 2000; Potocan & Mulej, 2007; Potocan & Mulej, 2009):

- There are many products or services that offer the same functionality, but there are other criteria for a customer to choose one of them. This applies to the economic system and business politics institutions, too. They are no longer free of competition: the entire European Union is on its way to become one single 'market' for the economic systems and business politics regulation as well;
- Product or service developers may be concerned about the technological attributes only of their product/s, or conceive it/them more holistically, which is what the new our concept of the economic system and business politics organization suggests;
- To meet customer criteria of good enough quality, products must be good on a holistic basis. Thinking about holism must include technology, production, business planning and doing, marketing, human resources, and several more aspects, as a system. This applies to the economic system and business politics institutions, too;
- Any product or service management, developing, producing, and selling should hence better be a very interdisciplinary endeavor, which links at least business, technology, human resources, organization, management, into one whole. This applies to the economic system and business politics institutions, too.

This means that creativity and holism in the phase of a product (= the economic system and business politics services and organization and management under discussion, in this case) development (without later phases of the process) are not enough, although essential (Mulej, 2000; Potocan & Mulej, 2007).

The concept is important because today, worldwide, there is a lack of education in systems thinking / systems theory; there are many unavoidable narrow specializations; and hence there is a lack of consideration of holism (Mulej, 2000; Rogers, 2003; Shane, 2008, Kelley, 2009). Even more: holism is frequently considered fictitiously, limits of consideration being reduced inside narrow specializations with their interdisciplinary co-operation, and reviving the out-of-date reductionism under the name of systems thinking (Mulej, 2000; Potocan & Mulej, 2007; Potocan & Mulej, 2009).

We also must mention questions of systemic quality (as seen by customers / users). Another aspect of making an invention, such as the new economic system and business politics organization and management, an innovation and really useful, tackles its application by many. Research on diffusion of novelties (Afuah, 2002; Lester & Piore, 2004; Gloor, 2006; Kuratko, 2008; etc.) demonstrates on the basis of several thousand cases that it is very difficult for an author and his or her change agent to make an invention - suggestion accepted by the potential customers. What they find good enough, is called excellent / perfect; it depends on five pillars of total quality, which are interdependent and each of them must be excellent (Hebert & Link, 1989; Afuah, 2002; Lester & Piore, 2004; Chesbrough, 2009). They are: Products, Processes, Leadership, i.e. Cooperative management, and Commitment, linked in a synergy by Organization.

A product is perfect if meeting criteria of "systemic quality in frame of SMEs working" made of the system of interdependent and interactive price, (technical and commercial) quality, range, uniqueness and sustainability as they are both defined and accepted by customers and important environment/s. This is where new management model must fit in.

A detailed discussion of single starting points exceeds the chosen frame of our discussion. This is a topic for another occasion.

CONCLUSIONS

The primary aim of our paper was to present possible ways for improvement of SMEs. In that framework and based on presented theoretical cognitions, we introduce and test items for measuring innovative thinking and

their linkage to personal values of SME's members. Regarding to relative importance of other measured characteristics of organization (which are not presented here) we can conclude that innovativeness is considered as an important characteristic of SME's members. We therefore support Hypothesis 1.

Based on examination of relationship between selected personal values and innovative thinking, we can conclude that SME's members' personal values play an important role in innovativeness of SME members, since the strength of relationship is significant, and from selected view point relatively good. We therefore could confirm Hypothesis 2, in four of five identified relationships.

Results from the survey reveal that SMEs members (in Slovenian SMEs) estimate innovativeness as an important value of their work and/or work of organization.

But cognitions about importance of innovativeness (as personal or as organizational value) are not enough for holistics improvement of level of SMEs innovativeness. We must add also other important solutions, like: (1) Will the economic system and business politics practitioners accept inventions, if they do not bring solutions, which offer more benefit than used to be the habit so far?; (2) In which level we must innovate VCEN, if we wish to improve the innovativeness of SMEs?; How to transform invention to innovation, from the view point SMEs?.

This paper lays possible ground work for future examination of relationship between SMEs members' personal values and innovativeness of SME's members.

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A STRATEGIC TOOL FOR THE SUCCESS OF SMEs: ENTREPRENEURIAL CULTURE

Sabiha Kılıç and Emre Çağlar
Hitit University, Turkey

Eren Güngör
MEB, Turkey

İrfan Çağlar
Hitit University, Turkey

ABSTRACT

The purpose of this study is to analyze and discuss the entrepreneurial culture conceptually, which can have a positive effect on the success of the Small and Medium Scale Enterprises (SMEs). In general, SMEs are economic enterprises that use less capital, work as labor-intensive business, have quick decision-making ability and low management costs, and perform cheap production (Uludağ ve Serin, 1991:14). SMEs are also considered as dynamic and innovative enterprises that take advantage of any opportunity (Dinçer, 1994:314). Entrepreneur culture of these SMEs has a key role in their successes. The study starts with a literature review about entrepreneurship, culture and organizational culture, and in the results and discussion part the importance of these concepts on the success of SMEs are evaluated.

INTRODUCTION

Entrepreneurship is an important factor for the economy of a country. Entrepreneurs are regarded as the engine of business (Tekin, 2004). The importance of entrepreneurship in modern society is emerged as making innovations. Modern entrepreneurs have power thanks to innovations and the capacity of converting innovations to concrete products in business. Hence, entrepreneurs should be in pursuit of innovations (Tutar ve Küçük, 2003). Entrepreneurs, in general, perform entrepreneurial activities by establishing SMEs. Thus, SMEs help the development of entrepreneurship and make it prevalent (Tekin, 2004). In general, SMEs are economic and labor-intensive enterprises using less capital, having quick decision-making ability and low management costs, and performing cheap production. SMEs are not regarded literally as tiny and small scale enterprises, but they are considered as dynamic, innovative enterprises that take advantage of opportunities (Çelik ve Akgemci, 1998).

Due to rapid change in business world, SME managers have to make business in an unstable and unsteady atmosphere. Thus, owners, partners or managers of SMEs should make decisions in more risky and ambiguous environment (Çelik ve Akgemci, 1998). The success of SMEs, thereby, depends on entrepreneurial culture formed by SME's organizational culture. Following sections contain detailed literature review about entrepreneurship, culture and organizational culture.

SMALL AND MEDIUM SCALE ENTERPRISES

Employment creation and added value effects of SMEs are very important for all countries in the world. Alongside economical effects of SMEs in countries, they also have very important roles in terms of social and political view. The definitions of SMEs made by countries, institutions, organizations and experts vary depending on the economical situation of the country and sectoral capacity. Thus, a standard definition accepted by every one does not exist. However, SMEs can be described as local enterprises financed only by owner's equity and run by the owner (Tutar ve Küçük, 2003).

One of the fundamental characteristics of SMEs is that they are run by an entrepreneur. Entrepreneur, in broader sense, is the one who takes risk and brings together the factors of production to produce goods and services.

There is an entrepreneurial spirit behind each SME. The major reason of establishing an enterprise is entrepreneurial motivation. Entrepreneurship is a valuable skill which contains qualifications such as taking risk and predicting the future (Tutar ve Küçük, 2003). For this reason, the success of SMEs that established thanks to entrepreneurial spirit will depend on entrepreneurial culture. Following sections contain detailed literature review about entrepreneurship, culture and organizational culture, which are crucial for the success of a SME.

LITERATURE REVIEW ABOUT ENTREPRENEURSHIP, CULTURE AND ORGANIZATIONAL CULTURE

Entrepreneurship

There are various definitions of entrepreneurship in the literature. According to Schumpeter (1947: 132), entrepreneurship can be defined as making revolution in production models using technological opportunities or innovations to develop a new method or to produce a new product. He also extends his definition such that entrepreneurship is to find new markets for the products or new supplies for the materials by reorganizing their industry.

For most of enterprises organizational innovation and creation of market opportunities are vital. However, entrepreneurial characteristics such as risk-taking should not be ignored. Some researchers perceive entrepreneurship as taking responsibility, while others get it as a complex tradition in economic theory (Outcalt, 2000). Thompson (2004) made the definition of entrepreneurship based on six personality traits i.e., creativity, ego, ability to team work, being social, ability to focus on and advantage. Entrepreneurs having aforementioned traits have leadership characteristics and ability to adapt and change roles. These traits complement entrepreneurial skills (Thompson, 2004).

Drucker (1985) considers enterprising individuals to be innovative. According to Drucker (1985) innovation is peculiar to entrepreneurs. Bernbaum(2007), define entrepreneurship as a dynamic process regarding vision, change and creativity. Entrepreneurship requires energy and ambition in development and implementation of new ideas and creative solutions. To be enthusiastic in calculation of risk, to create effective, risk-taking teams, to have creative talent to deploy the needed resources to the right places, to have basic talents to create business plans and to have necessary vision to see opportunities in chaos and disorder are basic elements required for entrepreneurship (Bernbaum, 2007).

According to Thompson (2004), an entrepreneur perceives opportunities and creates value and innovation from the opportunities. Harrison (2006) states that entrepreneurship is consist of elements such as faith, loyalty, ability to develop strategy, and management skills. According to Entrepreneurship Centre at Miami University of Ohio (2006) entrepreneurship is a process of defining, developing and implementing a vision of life. Vision is the better way of implementing an innovative idea, making use of an opportunity or more generally doing something. At the end of this process, new risks, risky conditions and uncertainty can emerge Entrepreneurship Centre at Miami University of Ohio, 2006: 10).

Definitions of entrepreneurship can be grouped as structural, process related and activity related definitions. According to Guth and Ginsburg (1990), one of the structural definitions, entrepreneurship is renewing the business or taking risks for the enterprise. Stopford and Baden-Fuller (1994) expands this definition by adding a third variable, which is creation of a better change in the structure of enterprise. Schumpeter (1934) describes entrepreneurship as redefining the industry. These three different definitions consist of risk-taking in enterprise at individual, small team and top management levels, and industrial definition refers to the enterprise as entrepreneur. Sharma(1999) explain the difference between traditional entrepreneurship which contains actors outside enterprise and business entrepreneurship which contains actors within or at the border of enterprise. Sharma(1999) distinguish the concepts of strategic renewal and risk-taking in the enterprise. Sharma(1999) also differentiate the concepts of risk-taking within or outside the enterprise. Structural definitions focus on particularly entrepreneurs associated with human actors who take risks and carry out strategic renewal, especially within the borders of the organization (Sharma, 1999).

According to process related definitions an entrepreneur firm is described as innovative, productive and risk-taking organizations (Covin and Slevin, 1989; Kets de Vries, 1977; Miller and Friesen, 1978). Lumpkin and Dess (1996) add competitive-aggressiveness and autonomy concepts to this definition. Stopford and Baden-Fuller (1994) specifies five characteristics of business entrepreneurship. These are productivity, expectations

beyond the current capabilities, team cohesion, ability to find solutions to the problems and learning ability. Monsen (2005) also states that high performance entrepreneur organizations include five cultural dimensions: risk-taking, modernism, productivity, self-administration and team work.

According to the activity related definitions, entrepreneurship is making descriptions of individual, team and organizational levels to better understand the human dynamics of the entrepreneurship. Entrepreneurship activities in different levels of organization should be explained and status and roles of each individual and team should be dealt with in detail (Monsen, 2005). Corporate entrepreneurship as an entrepreneurship action includes not only the activities of individuals and teams in an organization, but also activities of the organization in the market or industry. These entrepreneurship activities can be classified in three categories. These are internal corporate venturing, strategic renewal and redefinition of industry (Stopford and Baden-Fuller, 1994).

When definitions of entrepreneurship is inspected, it can be figured out that some fundamental concepts such as risk-taking, vision, team work, creativity, being socialized, innovation and productivity come into prominence. Entrepreneurial organizations could see the future and take risks to get opportunities in the future. Entrepreneurship is a part of entrepreneurial culture that the enterprise has. Along with the entrepreneurs of enterprises, which are social systems, the employees are also members of this system. If the qualifications of the employees coincide with the goals and ambition of the entrepreneurs, then the success of entrepreneur enterprise will be constant. Personal traits of entrepreneur and the other employees reflect the culture of the enterprise (Çelik ve Akgemci, 1998). Therefore, culture and organizational culture concepts are very important in the success of entrepreneurial SMEs.

Culture

Examining the researches about culture, one can see that there are several main perspectives. These are psychological culture, critical/postmodern culture and sociological culture (Martin, 2002). Within psychological culture literature, culture is a model that deals with training the new members of the organization about the sharing of intro-institutional and inter-institutional adaptation problems between groups, identification and perception of the problems. In this manner, the main elements of culture are observed behavioral regularities when people interact, group norms, espoused values, formal philosophy, rules of the game, climate, embedded skills, habits of thinking, mental models, linguistic paradigms, root metaphors or integrated symbols. These can be expressed as visible organizational structures, strategies, goals and philosophies, and unconscious, taken-for-granted beliefs perceptions and feelings which are the best sources for values and actions (Schein, 1992).

Within critical/postmodern culture literature, culture can be defined in five different ways depending on the organizational research and interest areas. In regards to cross culture and competitive organizations, culture is a tool serving the biological and psychological needs of individuals. According to researchers working on organizational culture, culture is a tool with adaptive and regulating functions that connects individuals within social units; culture is a system of shared cognitions (Smircich, 1983). According to organizational symbolism, culture is system of shared symbols and values. Symbolical actions require grasping, interpreting and clarifying the meanings. Lastly, in regards to organizations and subconscious process, culture is a general reflection of mental infrastructure of subconscious. Monsen and Boss(2004) have seen culture as an intra-organizational variable, and they have approached it from the point of view of one that wants to grasp the organizational theory. One can design cognitive maps to classify organizational units, level and works. This approach makes the management examine the acquired assumptions, the increasing problems regarding the goals and conditions, and uncover the main principles (Smircich, 1983).

Martin (1992;2002) defines three perspectives for culture theories. These are integration, differentiation and fragmentation. Generally, any of these three conflicts with another (Martin and Frost, 1996). With a postmodern approach, culture can be analyzed with all these perspectives at the same time. All there are equi-valid, and they help each other. Cultural analyses between and withing groups in an organization are helpful(Monsen, 2005).

Within sociological culture literature, we can find DiMaggio who emphasized the increasing convergence of sociology and psychology. According to DiMaggio(1997), especially cognitive works can be used for cultural analyses. Culture is often seen as a dependent variable resulting from broken and inconsistent situations. First thing to accept is that if humans manage to use culture strategically, culture will present a lot of opportunities and choices for socialization (DiMaggio, 1997).

Culture is not what an organization has, but what it does (Swidler, 2001). Culture provides ingredients for action strategies of groups and individuals (Swidler, 1986). Individuals and groups can use resources selectively. This

way, individuals can establish new cultural models to help them create new strategies using time, ideology, symbols and rituals, when they encounter indeterminate situations (Swidler, 1986). Culture makes both small and large entrepreneurial firms change internally and externally (Swidler, 1986, 2001).

Organizational Culture

Organizational will exist as long as organizations will do. The notion of organizational culture started to become popular in 1980s, but its roots go as back as 1940s (Geertz, 1973). Schein (1990) introduced several definitions regarding organizational culture. These definitions for organizational culture include;

- Evaluation norms for work groups
- Organization's point of view and climate
- Product quality, price leadership and other major factors
- Organizations philosophy towards workers and clients
- Rules of game that are the backbone of the organization

Schein made a more formal definition in 1992: “ A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein 1992). So, organizational culture is a common background and language invented for successful external adaptation and internal integration, helping the organization achieve success. Furthermore, culture is established mostly unconsciously, as the groups within the organization gain experience. According to Schein, organizational culture has three levels. First level are aspects that can be easily discerned, but are hard to understand. These include quality systems, databases to observe and control actions.

Second level is espoused values which are conscious strategies, goals and philosophies. The third and deepest level is basic assumptions and values of the organization. The organizational culture can be defined as the basic the basic values underlying the management system, guiding the management applications, changing along with the workers' experiences, affecting customer experiences, shareholder relations and share values (Schein, 1992).

At the organization level, culture is formed parallel to the national cultural traits and desires of leaders of the organization. At the individual level, organizational culture is affected by organizational actions and perceptions of workers. To predict the potential for success of an organization, one needs to check the organization's culture. Organizational culture has a lot of complex and abstract definitions, and many researchers worked on the observable and non-observable elements of it (Hatch, 1997). The observable elements of organizational culture are behaviors, rules, rituals and ceremonies, legends, stories, dress, language, general outlook, and other similar physical characteristics of the organization. The non-observable elements are the values, perceptions, norms, assumptions, beliefs and ideology. It is hard to agree on one definition of organizational culture, but many definitions include several of the aforementioned elements. Generally, culture is seen as a shared social concept resulting from assumptions and worldview of members of the organization. Culture in an organization is often established over a long period with common experiences (Wilkins and Ouchi, 1983).

According to Denison(1990), organizational culture is the main beliefs, values and assumptions of organization members. These beliefs, values and assumptions take part in applications and behaviors and empower them (Denison, 1990). Four elements are especially important in the success of the organization. These are involvement, consistency, adaptation and mission. These affect greatly the quality, profitability, innovation, market share, sales level and workers' satisfaction in an organization (Denison, 1990).

According to Galpin (1996), organizational culture has 10 major components. These are rules and policies, goals and measurements, customs and norms, training, ceremonies and events, management behaviors, rewards and recognition, communications, physical environment, and organizational structure.

Hellriegel, Slocum and Woodman (1986) define organizational culture as beliefs and expectations of organization members. Additionally, organizational culture has the following dimensions:

- Observed behavioral regularities when people interact
- Norms shared by working groups throughout the organization
- Dominant values held by the organization
- Philosophy that guides the organization's policy
- Rules of the game for getting along in the organization
- Feelings and climate conveyed in the organization (Hellriegel, Slocum ve Woodman, 1986).

DIMENSIONS of ENTREPRENEURIAL CULTURE

Corporate entrepreneurship, which emerges in competitive environment of globalization, is considered as an essential factor for the success of the business. Many business executives and managers, especially SME managers, are regarded as an important part of the entrepreneurship process. Although corporate managers are considered as homogeneous groups in the literature of corporate entrepreneurship, in research on organizational strategy state that managers at different levels have different organizational roles. Different administrative levels that provide different structural skills offer opportunities to support entrepreneurial skills of the organization (Hornsby et. al, 2009). In this manner, managers of the SMEs, who are the top managers of the business, have an important role in the development and adoption of institutional entrepreneurial culture. Creative, social, innovative, risk taker, pro-autonomy and team worker SME managers will be able to ensure the organizational level entrepreneurial culture by supporting institutional entrepreneurial process. Entrepreneurial culture enables development of entrepreneurial strategies, which will allow to innovative, creative and responsible individuals with in organization (Ireland et. al, 2009).

“Autonomy” is an other important tool to generate the entrepreneurial culture in a corporate dimension wich SMS’s managers would use. Independent behaviour style wich is necessary for undertaken new risks, is a way of creating entrepreneurial values. For encouraging the entrepreneurship in organization level, a self governing leadership should be procured by strong leadership. Disposal of organizational pressures will conceive unrestricted teams and creative individuals. The efficient use of outonomy in organizational level will provide successful entrepreneurial applications. According to Lumpkin and Dess (1996); outonomy or in an other saying self governing is the most important dimension of entrepreneurship. Also, most of the studies on the subject of outonomy, points outs outonomy as a key factor wich contributes the “entrepreneurial value creating processes”(Lumpkin et.al, 2009).

Entrepreneurial culture emerges, depends on the entrepreneurial features of enterprise managers, organizational culture and entrepreneurial strategies of the enterprise. Especially outonomy would help individulas to encourage them to produce entrepreneurial strategies through producing creative ideas and implement them as innovative, flexible, free individuals in a borderless organizational structures. Therefore entrepreneurial culture should be improved as a basic key of success in global environment especially by SMS’s.

CONCLUSION

Entrepreneurial culture can affect the success of organizations greatly due to its openness to taking risks and bravery. Entrepreneurs often take such risks of usefulness, efficiency, saleability. Taking risks is a necessary component of entrepreneurial culture (Boss, 1989).

Entrepreneurial culture of SMEs' depends on their assumptions and perceptions about culture and organizational culture. The organization and the employees are the most important elements that help visionary and capable entrepreneurs do what they cannot do alone. The entrepreneur can succeed if he manages to establish an organization culture together with the employees. Organizational culture is a common language and a common background that develops from successful attempts by employees to external adaptation and internal integration, and it helps the organization in the path to success (Schein, 1992).

The entrepreneurial traits and talents of the leadership, the cultural situation of both the employers and employees, and the basic assumptions of the organizational culture they together built, are the main elements during the development stage of entrepreneurial culture. Entrepreneurial individual are responsible, not afraid to take the necessary risks, innovative, creative and visionary (Bernbaum, 2007). If need arises, these individuals undertake new risks, reorganize the organization, organize the actions of individuals and groups within the organization, do strategical renewals, redefine the industry (Guth ve Ginsburg, 1990; Stopford and Baden-Fuller, 1994). The organization should be capable of handling any internal integration and external adaptation problems. New members should be trained to be able to identify, solve and share these problems (Schein, 1992). Culture helps organize individual and group action strategies (Swidler, 1986). When problems arise, using ideology, symbols and rituals, new cultural models can be devised to overcome these problems (Swidler, 1986). At the organization level, culture depends on the perceptions of employees about group actions and problems (Hatch, 1997). The organizational culture can be defined as the basic the basic values underlying the management system, guiding the management applications, changing along with the workers' experiences, affecting customer experiences, shareholder relations and share values (Schein, 1992). In this aspect; the success rate of an enterprise actualize according to enterprise mergers, enterprise change overs, adaptation process to the environment, the development of new creative ideas, group work, the training level of employees, vision

development process and the cultural ingredients of enterprise (Hatch, 1997). Therefore; the continuity of success of SME's, the factors such as entrepreneurship or entrepreneurial organizational culture would be used as a tool.

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CONTINUOUS IMPROVEMENT CULTURE IN SME'S: AN INTERPRETIVE FIELD STUDIES IN INDUSTRIAL SITES

Seyfi Top
Nurdan Colakoğlu
Serkan Dilek
Beykent University

ABSTRACT

The purpose of the present study is to investigate continuous improvement cultural applications in Small and Medium Scale Enterprises (SME) in İstanbul. To this end we researched perspective of entrepreneurs and managers for innovation, improvement practices and technological applications in SME's. Continuous improvement (CI) applications are important factors that make differences in competition between SME's. We will test the organization's ability to adapt to the technological changes in firm's internal environment and improvements by conducting a survey to managers and entrepreneurs in Industrial sites in İstanbul.

The article proceeds in the following manner. First, we briefly review the literature regarding continuous improvement innovation and problem solving organizations. We develop hypotheses concerning improvement, innovation, knowledge sharing and technical values. Second we conducted the survey which embedded in our hypotheses. Next, we tested our hypotheses by using data from SME's in manufacture and service sectors in some industrial sites. Finally we used SPSS 16.00 statistical package programme to interpret our data from this survey. We provide the research findings and discuss SME's managerial and theoretical implications of continuous improvement.

We searched if the sectors have the same or different perception about innovations and improvements. Entrepreneurs differ from managers on the perception of the importance in realizing changes, making innovations, sharing knowledge, facilitating communication. We searched that if the importance of technical knowledge infrastructure is understood enough by entrepreneurs and managers. In the dimension of technical infrastructure, continuous improvement culture (CIC) is increasing as the usage of trademark, royalty, patent and Know-How increases. The ratio of the firms which use trade mark or go to national or international strategic cooperation is %60. This result means that the risks and sources are shared with other firms. In this sense we evaluated that only % 40 of the firms in this region have innovation capacity and %60 of them have elasticity capacity. The most important result is the line manager's vision perception is higher than the other managers. In other words line managers have more optimistic expectations than top managers.

Keywords: *Innovation, Organizational Learning, Continuous Improvement, Continuous Improvement Culture*

INTRODUCTION

We are living in an era which is witnessing the rapid changes in knowledge, technology, concepts, product and opportunities. Both new and old enterprises should apply new concepts which are appropriate with their organizations and management styles to survive in hard competition conditions. The enterprises, which can be changed rapidly, have chances to survive (Mendoza, 2001;14).

Continuous improvement, as the name implies, adopts an approach to improving organizational performance, with small incremental steps, over time. In this approach, it is not the size of each step which is important but the likelihood that the improvements will be ongoing. Many companies are now complementing continuous improvement with innovation, which is seen as the successful exploitation of new ideas, and there appears to be a clear synergy between these two philosophies when integrated under an appropriate corporate culture.

The architect of continues improvement culture is Japan. Japans attracted the advice of Taylor. This advice was the decreasing of wasting sources and energies. After that advice Japans developed continues improvement culture (Kaizen) and focused on decreasing failure and wasting (Imai,1994,5;Top,2009;292). Also the study of Henry Ford, which was published in 1926 and has a name of "Today and Tomorrow", attracted Japans and became an important tool for building JIT in Toyota. Addition to this, the stock systems of American Supermarkets attracted Japans and became an important concept in Continues improvement approaches (Lynch and Cross,1995;13).

Therefore improvement becomes an important activity for any single SME to own all the required resources at the required levels. Indeed, if an SME tries to own all these resources, it may find its development unsatisfactory due to dispersion and weakening of its core competitiveness. It would be more sensible to focus its own administrative and technical resources and abilities on its continuous improvement. In order to comprehend the need for improvement in the industry, firms need to look for a competitive position in today's market that is essential to provide more consistent quality and value to their owners/customers. Over the past decades, CI has been studied from many perspectives. The need to continuously improve on a larger scale within the organization became an imperative and number of CI methodologies have developed.

Literature Review

In literature, continuous improvement notion has been described in many ways. For example; improvement is defined as main goal of the quality for firms (Juran,1988,8; Top,2009,287-289). This goal is explained by Deming (1982;36-40) as endless developments in processes, products and total quality management (TQM). According to Crosby (1979;137), the goal is realized by helping organizational learning, effecting thinking processes and providing a team's mission. In these perspectives improvement concept is a useful tool and philosophy for achieving the goals of enterprises. Sinclair, Phelps and Sadler (2004;2) mentioned that improvements are related with the elasticity, velocities and qualities of problem solving approaches. In this sense CI is a life philosophy of TQM. According to Imai (1994;3) even if all the things are done best, this is not enough for future conditions. For that reason CI is a thinking the best of the best of processes, actions for all of the fields of enterprises.

One of the most important business goal is total customer satisfaction. To achieve that goal, managers need organizations which can best deliver solutions that conform to customer needs and expectations first time every time (Pantling,1993;23). Every business today and in the future must keep its own customer satisfaction with continuous improvement paths. These new needs that the market places on companies are seen as the productive and effective sphere as improvements in standards for quality, cost and service. Appropriate management philosophy can contribute greatly to such improvements (Arca and Prado,2008;247).

Continuous Improvement Concept

CI is a philosophy that Deming described simply as consisting of "Improvement initiatives that increase organization successes and reduce failures" (Bhuiyan and Baghel,2005;761). In Philosophy manner, CI is described as the development of different life fields and living styles. However, improvement is the need of life field for enterprises to continue competing (Top,2009;287-292). Deming, one of the pioneer of Total Quality Management, defines CI as "endless improvements in processes, qualities and management" (Deming, 1982, 36-40). In other words the continuous improvement is a process or level that eliminates dissatisfactions of customers, suppliers, employees, entrepreneurs and managers (Spiker and others,1992;722). In this sense, the special aim of CI is to improve the existing situation: trying to reduce costs, striving for zero defects, striving for zero inventories, and trying to offer a large product variety (Lange-Ros,1999;9).

We can also define CI more generally as a culture of sustained improvement targeting the elimination of waste in all systems and processes of any organization. It involves everyone working together to make improvements without necessarily making huge capital investments (Bhuiyan and Baghel,2005;761). CI also contains knowledge sharing and continuous learning process (Crosby,1979;137). Continuous learning is a keystone of continuous improvement and is a cement organization success (Mendoza,2001;14). In this context CI, means a commitment to constant examination of technical and administrative processes in search of better methods and techniques (Lange-Ros,1999;15).

Another definition of CI is a company-wide process of focused and continuous incremental innovation (Bhuiyan and Baghel,2005;761). CI refers to single incremental changes or development and innovation which influence all of the firms performance (Lange-Ros,1999,18-20). Briefly CI is a sustained incremental innovation, and development are taken up with learning the basic of systematic problem solving (Bessant and Caffyn,1996;3-10). According to Deming, Juran and Feigenbaum, the concept of continuous improvement is a factor that creates heterogeneous sustainability to the firms (Lynch and Cross,1995;13). Organizational change, especially improvements get much attention in literature as well as in practice. Often in literature, a distinction is made between major and minor, or incremental and changes. According to Revans, for an organization to be successful in today's rapidly changing environment, its capacity to improve must exceed the rate of change imposed on it (Buckler,1996;31). CI requires an organizational culture that constantly encourages members to innovate minimizes fear and provides them with a rich and diverse set of tools (Liao, et al. 2010;9). In this context CI require cultural change throughout the firm. (Kitazawa and Sarkis,2000;242-243).

CI philosophy is composed of a number of associated concept, such as: continuous innovation, employee empowerment of all staff to participate in innovation and problem finding and solving, experimentation as a complement to maintenance of standards, sharing of knowledge, organizational learning and measuring and monitoring incremental change (Top,2009;288-289).

Continuous Improvement Culture

Culture is the driving force behind the big team version of teamwork (Floyd, 2008, 1), that is a means of shared patterns of thought, belief, feeling and values that result from shared experiences and common learning (Sabuncuoğlu ve Tüz,2003;36). As it is seen, culture is defined as the values, beliefs, and norms of an organization that shape its behavior (Shortell et al.,1995;381). Culture may be described in several different ways by various observations based on different experiences and observed conditions. One of the most common is described by Shein (2004;17) “as a pattern of shared basic assumption that was learned by a group as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems”.

We can also describe four cultural types which explain improvement issues. The first type is a group culture based on norms and values associated with affiliation, teamwork, and participation; the second is a developmental culture based on risk-taking innovation and change; the third is a hierarchical culture reflecting the values and norms associated with bureaucracy; and a rational culture emphasizing efficiency and achievement in the business (Eren,2008,137-141; Shortell et al.,1995,381). In this context we impose team, organizational and industry culture.

Industry Culture

An industry is defined by shared or interlocking metaphors or world views and a common body of methods, behavior and knowledge appears to exist within an industry which is disseminated through media equally available to and used by executives within the industry (Basso et.al,2008;9). Together with these values, beliefs and behaviors which are used in business define industrial culture (Floyd,2008,5). On the other hand, an industry is defined as a set of firms that use similar technologies, have similar clients and suppliers, apply similar management style. As a result, the firms that belong to the same industry tend to compete in similar environments and environments characterized by similar levels of dynamism, hostility, technological sophistication, etc(Basso et.al,2008;9). These cultural values affect the industry that causing creative improvement through other people requires much more complex and engaged relationship than the current industrial practice of supervising people to perform against a fixed standard (Floyd,2008;3).

Corporate Culture

Every improvement effort has also driven an evaluation in the management style of the company and every each of development of management style can support to evolve the management culture (Pantling,1993;23). These are adaptation to the external environment and survival in and integration of its internal processes to ensure the capacity to continue to serve. Basically corporate culture functions are to solve basic problems that members facing with (Basso et.al,2008;12). Corporate culture like management philosophy, managerial structure or even strategy is needed for CI (Lumpkin and Dess,1996;139).

The principle of continuous improving is teamwork that is the collaboration between managers and non managers, between functions and between customers and suppliers. The use of teamwork between managers and non managers is based on the assumption that all employees can make important contributions to organizations when they have enough power and the necessary preparation. Teamwork among functions is based on the notion that organizations as systems cannot be effective if subunits emphasize their own outcomes over those of others. The principle of teamwork with customers and suppliers is based on the perceived benefits of partnerships. Collaboration practices include identifying the needs of all groups and organizations involved in decision making, trying to find solutions that will benefit everyone involved and sharing responsibilities and credit (Lange-Ros,1999;15).

Team Culture

There are four basic elements or preconditions necessary to ensure a culture of CI for all employees in a team based. In a much simplified way, the model requires everyone to understand why improvement is important and what exactly his/her contribution should be. Team members must have the competence and skills to do problem solving, synthesis solutions, formulate opportunities etc, (Jager,et al.,2004;316). Given the emphasis of CI efforts on empowering individuals to make decisions and on promoting communication across departments and functions, it is felt that cultures emphasizing group and developmental components will be more conducive to implementing quality and firm improvement efforts (Shortell et al.,1995;381).

It is not well understood that the sources of innovations are the common minds of teams, sharing technical knowledge and corporate learning. Teams can get ultimate success by the combination of different teammates’

experiences, abilities, visions and skills (Nsenduluka and Shee,2009;438-439). Self-directed-works- teams like quality circles are natural output from employee involvement, empowerment and leadership through quality and improvement. As management style has changed and quality and improvement principles have applied to the organizations, the need for empowerment and the development of self-directed-works-teams are becoming important for organizations (Pantling,1993;24).

Innovation Strategy

Innovations play an important role in successfully competition and surviving for business. Innovations can be defined as a motor which fires organization for adapting environment and surviving in long run (Nsenduluka and Shee, 2009, 438). One of the most important variable that effects innovations is organization climate. Organizational climate defines business environment and studying platform which includes the missions of organization members. Organizations are searched with all it's dimensions (Nsenduluka and Shee,2009;440). Group Climate for Innovation (GCI) is defined with four factors approach which comes from the group activities of innovation. The first one is vision that is the focusing of teammates on realist and clear goals. Second is the attractions which are obtained from contributions of teammates which are encouraged to innovation. Third factor is the assessment of general weaknesses to get higher degree success standards. We can call them mission adaption. Last factor is the improvement of corporation and production of new ideas which support innovations (Nsenduluka and Shee,2009;441-442).

Vision

The world where managers can discover new horizons, companies has become industry leaders by huge margins in the space of months, not years. They have found a way to open up with a viable vision. CI vision consists of two major components: core ideology and envisioned future. Core ideology, the yin in our scheme, defines what we stand for and why we exist. Yin is unchanging and complements yang, the envisioned future. The envisioned future is what we aspire to become, to achieve, to create something that will require significant change and progress to attain (Collins and Porras,1996;3). Today managers compete in such a competitive and complex environment that establishing accurate goals and understanding how they can be achieved is vital. Executives understand that their organization's measurement system strongly affects the behaviour of managers and employees (Kanji and Sá,2002;14). Core ideology defines the enduring character of an organization, a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders. In fact, the most lasting and significant contribution of those who build visionary companies is the core ideology (Collins and Porras,1996;3).

The concept of trust in management indicates employee faith in an organization's goal attainment and organizational leaders and the belief that organizational action will be beneficial for employees (Renzl,2008;209). To create a vision forces managers and employee to take a stand for a preferred future. To articulate their vision of the future is to come out of the closet with our doubts about the organization and the way it operates (Block,1987,102-105; Fullan,1993,3).

Company Vision

The company's vision highlights issue which will make employees feel of being as a part of their own company (Pantling,1993;25). All groups operate in an organizational culture. Every firms or organizations over time has developed its own way of doing things. An organization's culture is difficult to change in a short time (Richardson,1994-1995;10). However the importance of CI needs the cultural change stage that employee empowerment. It provides a better explanation of how an organization requires extensive training and empowerment. The cases show that there needs to be a conscious effort by management that allows more employees to participate in the decision-making process (Kitazawa and Sarkis 2000;242-243).

Companies that enjoy enduring success have core values and a core purpose that remains fixed while their business strategies and practices endlessly adapt to a changing world (Collins and Porras,1996;2). To support and motivate employees clear and direct incentive mechanisms, such as profit sharing need introduction, thus to improve employee participation. Such management commitment strongly supports the creation of job enrichment and fosters employee empowerment. These major elements are found to be supportive of each other, as well as supporting CI in operational activities that were designed for source reduction (Kitazawa and Sarkis,2000;243). The contributions of employees are important factor in Deming's approach and success is the result of collective study's nature (Dettmer,1997;10). Activities are not studied in isolation, instead the whole chain from supplier to customer is taken into account and all the activities in this chain are important (Lange-Ros,1999;10).

Organizational Human Capital

Human Capital is generally studied by capabilities. Capabilities of employees are the most important human capital. By adding new items to this concept, it is defined with technical knowledge, capacity and capability that creates different performance to organizations (Hsu,2007;1). According to Parnes, human capital includes capabilities and applied knowledge, which has price on labor markets. It is also defined as capabilities that make effective business performance. In perspective of source based firm, human capital provides competitive source that can be improved. According to this view these sources are intangible and help creating survival superiority (Hsu,2007;1-2).

The most important principle is the concept of organizations as systems of interlinked processes and the belief that by improving these human capital, organizations can continue to meet the increasingly stringent expectations of their customers (Lange-Ros,1999;15). As technologies and systems advance, their development and CI call for new kinds of resources. These could include intellectual properties, human resources, capital, management know-how, and so on. The scope of such resources keeps getting wider, and their quality and quantity requirements keep increasing (Yasuda,2005;5). Organizational learning framework provide useful ways of thinking about CI and CI a more holistic process learning suggests that efforts to improve and develop behavioral routines will be more beneficial. (Murray and Chapman,2003;281).

METHOD

This study is done in 2 industrial sites (Pirinççiler and Bakırçılar), which are located in Beylikdüzü in Istanbul, to reveal the improvement about the CIC in Enterprises. While there are 730 enterprises in total, we tried to make an appointment with the 540 enterprises. But 222 enterprises gave answer to us. Although we applied a survey by face to face method through 222 enterprises, only 178 of them gave complete answers to survey. This survey is analyzed by SPSS 16.00 statistical package programme. We made queries about the CIC in sectoral manner by this survey. 35 question was asked to measure technical infrastructures of firms which concerns about CIC, improvement philosophy of top management, Vision and Success understanding, innovation strategies, the actions of human resources in improvement.

FINDINGS

Before our analysis we made reliability tests, as a result of this test we found %84 as Cronbach Alfa coefficient. This is strictly reliable for making statistical analysis (Nakip,2006;146). We continued our analysis because we believed that 178 enterprises represent total enterprises. In Table 1 it can be seen that %74,2 of the enterprises are production and % 25,8 of the enterprises are service firms. Also we can see that %38,2 of the enterprises have less than 500.000 TL fixed investment, %24,2 have amount of 500.000-1.000.000 TL fixed investment, %18,5 have amount of 1.000.000-5.000.000 TL fixed investment, only %19,1 have more than 5.000.000 TL fixed investment. So most of the enterprises are small or medium sized.

Table 1: Sectors

Sektör	Frequency	Percent
Production	132	74,2
Service	46	25,8
Total	178	100,0

Table 2: Estimated Fixed Investment of Firms

	Frequency	Percent
Less Than 500.000 TL	68	38,2
500.000-1.000.000 TL	43	24,2
1.000.000-5.000.000 TL	33	18,5
More than 5.000.000 TL	34	19,1
Total	178	100,0

%32 of the participants are entrepreneur or employer, %30,9 of them are top manager or enterprise executive managers and %30,3 of them are medium level executive, only %6,7 of them are line executives. These results can be seen in Table 3. As a result %62,9 of participants are top managers because of this reason This view represents the improvement culture and vision of top management in CIC.

Table 3: Level of Participants

	Frequency	Percent
Entrepreneurship	57	32,0
Top Manager	55	30,9
Medium Level Executive	54	30,3
Lower Level (line Executive)	12	6,7
Total	178	100,0

Table 4 shows technical infrastructures of enterprises. Only 73 of 178 enterprises are using patents and this represents %41 of total. Also only 70 of 178 enterprises are using technical knowledge or know-how and this represents % 39,3 of total. On the other hand 112 of 178 enterprises are using trademarks or royalty (%62,9 of total), 132 of 178 enterprises are using strategic business networks (%74,2 of total), 104 of 178 enterprises have cooperation with international firms (104 of total). In other words %60 of enterprises are using trademark, strategic business networks, royalties and cooperations, %40 of enterprises are using patents, technical knowledge and know-how. We can call this balance as %60-40 balance.

When we interpret these results, we met with an interesting trend and two important solutions. Trademark, royalty, strategic business networks and cooperations are indirect items which are related with production. Patents, Technical knowledge and know-how are direct items which are related with production. It is seen that indirect items are in front of direct items. The first solution is that patent and know-how usage culture is just in improving level in industrial sites. Secondly there is a common belief that patent and know-how usage area is risky for enterprises. But, trademarks and royalties are the less risky area for businesses. The interest on trademarks and cooperation is the result of globalization which is becoming important day by day. But to test these results, we need more complicated academic searches.

Table 4: Technical Infrastructure.

	Yok		1		2-5		6+	
	f	%	f	%	f	%	f	%
Usage of Patents	105	59	32	18	30	16,9	11	6,2
Usage of Technical Knowledge and Patents	108	60,7	19	10,7	31	17,4	20	11,2
Usage of Trademarks and Royalties	66	37,1	50	28,1	43	24,2	19	10,7
Strategic Business Networks	46	25,8	32	18	60	33,7	40	22,5
Cooperation with International Firms	74	41,6	25	14	38	21,3	41	23

Enterprises define their top management philosophy in Table 5. In evaluating the philosophy of management about CIC, %89,3 of enterprises agree or strictly agree with the statement “Top Management defines core abilities and obtains other abilities from external environment”; %89,3 of enterprises agree or strictly agree with the statement “top manager knows that the increase in technical knowledge provides competitive advantage to enterprises”; %88,2 of enterprises agree or strictly agree with the statement “Top management builds sharing mechanisms of technical knowledge inside of the firm”; %87 of enterprises agree or strictly agree with the statement “top management knows that inside organizational culture have to be comfortable for sharing technical knowledge”; %87,1 of enterprises agree or strictly agree with the statement “Top management knows that with the help of sharing technical knowledge enterprise can share vision and mission”. In other words approximately %70 of enterprises have positive bias about top management philosophy. In this view, results show that CIC is taken into account by top management and the intentions of top management is positive. About %25 of participants answer “Strictly Yes” and we need further search that investigates in what amount of this applications are used.

Table 5: Top Management Philosophy

	Strictly No		No		Sometimes		Yes		Strictly Yes	
	f	%	f	%	f	%	f	%	f	%
Top management defines core abilities and obtains other abilities from external environment.	0	0	1	0,6	18	10,1	120	67,4	39	21,9
Top management knows that the increase in technical knowledge provides competitive advantage to enterprises.	0	0	1	0,6	18	10,1	119	66,9	40	22,5
Top management builds sharing mechanisms of technical knowledge inside of the firm.	0	0	1	0,6	20	11,2	127	71,3	30	16,9
Top management builds system infrastructures which are needed for sharing technical knowledge.	0	0	1	0,6	17	9,6	119	66,9	41	23
Top management knows that inside organizational culture have to be comfortable for sharing technical knowledge.	0	0	3	1,7	20	11,2	127	71,3	28	15,7
Top management knows that with the help of sharing technical knowledge enterprise share vision and mission.	0	0	2	1,1	21	11,8	121	68	34	19,1

The trends of participants about innovation strategies are shared with Table 6. %67,4 of participants agree with the statement “enterprises want to be in front of their rivals in innovation applications”; %68 of participants agree with the statement “innovation is an important competition tool for enterprises”; %68 of participants agree with the statement “enterprises should always think about designing new products and services”; %66,3 of participants agree with the statement “enterprises should allocate enough funds for R&D activities”; %68 of participants agree with the statement “enterprises should cooperate with universities and consultants about

innovations”; %75,8 of participants agree with the statement “sharing and transferring technical knowledge inside enterprise is important for organizational learning”. From these results we interpret that enterprises want to realize innovation strategies.

Table 6: Innovation Strategies

	Strictly No		No		Sometimes		Yes		Strictly Yes	
	f	%	f	%	f	%	f	%	f	%
Enterprises want to be in front of their rivals in innovation applications.	0	0	2	1,1	20	11,2	120	67,4	36	20,2
Innovation is an important competition tool for enterprises	0	0	3	1,7	21	11,8	121	68	33	18,5
Enterprises should always think about designing new products and services	0	0	2	1,1	23	12,9	121	68	32	18
Enterprises should allocate enough funds for Research and Development activities.	0	0	6	3,4	26	14,6	118	66,3	28	15,7
Enterprises should cooperate with universities and consultants about innovations.	1	0,6	9	5,1	21	11,8	121	68	26	14,6
Sharing and transferring technical knowledge inside enterprise is important for organizational learning.	1	0,6	5	2,8	19	10,7	135	75,8	18	10,1

The thoughts of participants about the human sources are shown in Table 7. %64 of participants agree with the statement “employees should see the mission, vision and values as their identities”, %69,1 of participants agree with the statement “employees are one of the basic tools for reaching the goals of enterprises.”; %70,2 of participants agree with the statement “employees build intellectual capital of enterprises with their innovation abilities and creativities”; %69,7 of participants agree with the statement “the intellectual and solving problems capacity of employees create competitive advantage for enterprises”; %68 of participants agree with the statement “employees are important sources in creating differences between rival firms”; %75,8 of participants agree with the statement “The innovation capacity and creativities of employees are important tools for response technological innovations of rivals”; %72,5 of participants agree with the statement “The innovation capacity and creativities of employees decrease the costs in medium term”. So enterprises are aware of the importance of human sources for CIC in enterprises.

Table 7: Human Resources

	Strictly No		No		Sometimes		Yes		Strictly Yes	
	f	%	f	%	f	%	f	%	f	%
Employees should see the mission, vision and values as their identities.	0	0	1	0,6	18	10,1	114	64	45	25,3
Employees are one of the basic tools for reaching the goals of enterprises.	0	0	1	0,6	12	6,7	123	69,1	42	23,6
Employees build intellectual capital of enterprises with their innovation abilities and creativities.	0	0	3	1,7	18	10,1	125	70,2	32	18
The intellectual and solving problems capacity of employees create competitive advantage for enterprises.	0	0	5	2,8	15	8,4	124	69,7	34	19,1
Employees are important sources in creating differences between rival firms	0	0	2	1,1	20	11,2	121	68	35	19,7
The innovation capacity and creatibility of employees are important tools for response technological innovations of rivals.	0	0	1	0,6	18	10,1	135	75,8	24	13,5
The innovation capacity and creatibility of employees decrease the costs in medium term.	0	0	0	0	22	12,4	129	72,5	27	15,2

The importance of team culture for CIC in enterprises are given in Table 8. %59,6 of participants agree with the statement “The innovative improvement velocity is higher in enterprises which give importance to team focused approach”; %70,2 of participants agree with the statement “The opinions of all employees should be asked before innovation inside of the enterprise”; %69,1 of the participants agree with the statement “The creativity of employees should be rewarded as a team for innovations inside of the enterprise. These results show that enterprises are aware of the importance of team culture in realizing continues improvement.

Table 8: Team Culture

	Strictly No		No		Sometimes		Yes		Strictly Yes	
	f	%	f	%	f	%	f	%	f	%
The innovative improvement velocity is higher in enterprises which give importance to team focused approach.	0	0	9	5,1	26	14,6	106	59,6	37	20,8
The opinions of all employees should be asked before innovation inside of the enterprise.	1	0,6	11	6,2	20	11,2	125	70,2	21	11,8
The creatibility of employees should be rewarded as a team for innovations inside of the enterprise.	0	0	6	3,4	25	14	123	69,1	24	13,5

Table 9 gives the vision of management; %64,6 of participants agree with the statement “management estimates that enterprise will have more customers than their rivals in following 5 years”; %62,4 of participants agree with the statement “management estimates that enterprise will have more qualified employees than their rivals in following 5 years”; %73 of participants agree with the statement “management estimates that enterprise will have advanced technical knowledge than their rivals in following 5 years”; %65,7 of participants agree with the statement “management estimates that enterprise will have better working situations than their rivals in following 5 years”; %73 of participants agree with the statement “management estimates that enterprise will have higher productivity than their rivals”; %73,6 of participants agree with the statement “management estimates that enterprise will supply better products and services than their rivals in following 5 years”; %71,3 of participants agree with the statement “management estimates that enterprise will have better quality than their rivals in following 5 years”.

Table 9: Vision and Success

	Strictly No		No		Sometimes		Yes		Strictly Yes	
	f	%	f	%	f	%	f	%	f	%
Management estimates that enterprise will have more customers than their rivals in following 5 years.	0	0	2	1,1	10	5,6	115	64,6	51	28,7
Management estimates that enterprise will have more qualified employees than their rivals in following 5 years.	0	0	4	2,2	11	6,2	111	62,4	52	29,2
Management estimates that enterprise will have advanced technical knowledge than their rivals in following 5 years.	0	0	1	0,6	7	3,9	130	73	40	22,5
Management estimates that enterprise will have better working situations than their rivals in following 5 years.	0	0	2	1,1	8	4,5	117	65,7	51	28,7
Management estimates that enterprise will have higher productivity than their rivals.	0	0	2	1,1	5	2,8	130	73	41	23
Management estimates that enterprise will supply better products and services than their rivals in following 5 years.	0	0	1	0,6	2	1,1	131	73,6	44	24,7
Management estimates that enterprise will have better quality than their rivals in following 5 years.	0	0	1	0,6	2	1,1	127	71,3	48	26,9

In this part of our study we evaluated subdimensions according to sector, estimated investment amount and the status of managers in organizations and looked for if there exists any significant differences between them. Our hypotheses will be tested as below:

H₁: There is a difference between sectors according to their Continues Improvement Culture.

We applied independent samples “t test” and results are given in Table 10. While we are looking for relationship between variables, which are defined on our hypotheses, we investigated if sig (2-tailed) rates are below 0,05. When we analyze Table 10, we see that there is no significant difference between sectors for all of the subdimensions. In other words, both sectors have same comprehension about the CIC in these industrial sites. Istanbul is one of the most important industrial region of Türkiye. As a philosophy of CIC, every firm give importance to improvement. However only %40 of these firms use patents or know-how’s. In this region, % 60 of the firms use trademarks and royalties. We evaluated that improvement in production and processes are left on main firms. So they don’t take risk of improvement.

Table 10: (H₁) Difference Between Sectors According To Their CIC

Subdimensions	t	Sig (2-tailed)
Technical Infrastructure	1,636	,106
Top Management Philosophy	-,278	,782
Innovation strategy	1,485	,141
Human Resources	1,455	,150

Team Culture	,583	,561
Vision-Success	-,088	,930

H₂: There is a difference between estimated fixed investments according to their Continues Improvement Culture.

H₂ hypothese is applied “Anova test”, because our study contains four discrete groups for estimated fixed investments. The results are given in Table 11. When we analyze this table, we see that there is no significant difference between estimated fixed investments for all of subdimensions. H₁ and H₂ hypotheses are denied after statistical analysis. According to Estimated Fixed Investments and related sectors, there is no significant difference on CIC between firms.

Table 11: (H₂) Difference Between Estimated Fixed Investments According To Their CIC

Subdimensions	t	Sig (2-tailed)
Technical Infrastructure	1,404	,243
Top Management Philosophy	,435	,728
Innovation strategy	,209	,890
Human Resources	,404	,750
Team Culture	,716	,543
Vision-Success	1,386	,249

H₃: There is a difference between the position of managers according to their CIC.

H₃ hypothesis is tested with “Anova test” and related solutions are given in Table 12. H₃ hypothese is confirmed by “Anova test”. We used “Scheffe source test” to know-how they are grouped. As a result, Entrepreneurs are in one group, and all managers (Top, middle and line) are in other group. Entrepreneurs have the lowest degree, but middle managers have the highest degree. Also Vision-Success subscale shows difference according to the positions of managers in organization. As a result of “Scheffe tests” middle managers are in one group and others are in different group. Line managers have the highest mean about Vision-Success.

Table12: (H₃) Difference Between The Position of Managers According To Their CIC.

Subdimensions	t	Sig (2-tailed)
Technical Infrastructure	6,783	,000
Top Management Philosophy	1,401	,244
Innovation strategy	,390	,760
Human Resources	,701	,552
Team Culture	,650	,584
Vision-Success	6,213	,000

H₄: There is a difference between organizations with different number of patents, according to their CIC.

H₄ hypothesis is tested with “Anova test” and related solutions are given in Table 13. There exists three groups after “Scheffe test”. First group is made of enterprises with no patent; second group is made of enterprises with one patent and last group is made of 2-5 or 6+ patents. The first group has the lowest average in technical infrastructure, third group has the highest average in this item. In this context we can say that the firms that use patents and know-how’s have higher CIC then the firms that don’t use patents or know-how’s. This shows us that patents and know-how encourage the firms to improve their technologies.

Table 13: (H₄)There is Difference Between Organizations With Different Number Of Patents, According To Their CIC.

Subdimensions	t	Sig (2-tailed)
Technical Infrastructure	60,157	,000
Top Management Philosophy	1,825	,144
Innovation strategy	2,113	,100
Human Resources	,782	,505
Team Culture	,712	,546
Vision-Success	2,170	,093

Vision-Success subdimension shows differences according to position of managers. Middle managers have the lower average of interpreting of vision-success than line, top managers and entrepreneurs. The most important result is the line manager's vision perception is higher than the other managers. In other words line managers have more optimistic expectations than top managers.

H₅: There is difference between organizations with different number of trademark or royalties, according to their CIC.

H₅ hypothesis is tested with "Anova test" and related solutions are given in Table 14. As a result of "Scheffe test", there exists three groups. First group is made of enterprises with no trademark; second group is made of enterprises with one trademark; third is made of enterprises with 2-5 or 6+ trademarks. Enterprises with no trademarks have the lowest average while enterprises with more than 2 trademarks have the highest average. Top management philosophy is analyzed and there exists two groups. First group is made of enterprises with lower than 5 trademarks; second group is made of enterprises with 6+ trademarks. Enterprises with 6+ trademarks have higher average. In this sense, we can say that the firms that use trademarks and royalties have higher CIC then the firms that don't use trademarks and royalties. This shows us trademarks and royalties encourage the firms to develop their innovation.

Table 14: (H₅) There is Difference Between Organizations With Different Number Of Trademark Or Royalty, According To Their CIC.

Subdimensions	t	Sig (2-tailed)
Technical Infrastructure	86,303	,000
Top Management Philosophy	4,374	,005
Innovation strategy	,553	,647
Human Resources	1,691	,171
Team Culture	1,176	,320
Vision-Success	,919	,433

CONCLUSION:

Istanbul is one of the most important industrial region in Türkiye. As a philosophy of CIC, every firm gives importance to improvement, however only %40 of these firms use patents or know-how's. In this region, % 60 of the firms uses trademarks and royalties. We evaluated that improvement in production and processes in some firms are left because of risky environment. So they may not be take risk of improvement.

We reached interesting results from the survey which is applied to firms in Beylikdüzü Organised Region. %75 of the participants are from production sector and the rest of them are from service sector. Main views that is revealed %93 of the participants are top managers, entrepreneurs and middle managers views. All of the managers and entrepreneurs have optimistic expectations about future. The expectations about the next five years in sectoral level are positive manner, we evaluated that visions of them are compatible to CIC.

In similar, Fixed capital investment of approximately % 40 of the firms are below 500.000 TL. Also fixed capital investment of % 62 of the firms are below 1.000.000 TL. So most of the firms in this region are SME's. %60 of the firms in this region don't use patent or Know-how. Whereas the ratio of the firms which use trade mark or go to national or international strategic cooperation is %60. This result means that the risks and sources are shared with other firms. On the other hand strategic cooperation, which clarified the innovation and elastic behavior of SME's property, are one of the main superiority. Firms need to improve patents and do new patents or make R&D activities. In this sense we evaluated that only % 40 of the firms in this region have innovation capacity and %60 of them have elasticity capacity.

We interpreted that about %70 of the firms have understood to innovation strategy is competition superiority. Also they understood the importance of human resources in making these innovations. To realize these, importance of team and organization culture is emphasized in problem solving, decreasing cost, making innovation and creation.

We have seen that there are no differences between CIC and sectors in applied relationship tests. We evaluated that in all of the sectors have the same perception about innovations and improvements. Also We have seen that

there is no differences between CIC and estimated fixed investments in applied relationship tests. In other words we evaluated that similar understandings between investments and improvement culture are significant.

An interesting result of analysis related between technical infrastructures and managers, is revealed. In this analysis, there exist two groups. The first group is consists of entrepreneurs and all types of managers revealed as an other group. When the entrepreneur's group has a lowest average on the perception of the importance in realizing changes, making innovations, sharing knowledge, facilitating communication; Middle managers have the highest average on these perceptions. We can interpret that the importance of technical knowledge infrastructure is not understood enough by entrepreneurs. In the dimension of technical infrastructure, CIC is increasing as the usage of trademark and royalty increases. At the same time CIC is increasing as the usage of patent and know-how increases.

Vision-Success subdimension shows differences according to position of managers. Middle managers have the lower average of interpreting of vision-success than line, top managers and entrepreneurs. The most important result is the line manager's vision perception is higher than the other managers. In other words line managers have more optimistic expectations than top managers.

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SMALL TO MEDIUM, SIZED ENTERPRISES AND THE STRENGTH OF WEAK NETWORK TIES

Lynne Butel and Dababrata Narayan Chowdury
University of Plymouth, UK

ABSTRACT

This research explores the networks of small to medium sized enterprise in peripheral European regions, using case study based methodology and the principles established by the Upsalla School that all business activity occurs in a network setting and the development of organisations is dependent upon the direct and indirect transfer of resources such networks allow. The research identifies a rich and complex network of relationships extending quickly into the national and international arena, used extensively by small firms. The research suggests that models of regional economies that focus on clusters but ignore networks may result in overestimating the disadvantage of periphery.

Key words: strategic networks, small to medium sized enterprises (SMEs), innovation

INTRODUCTION

This research examines the contribution of one central organisation to the development of a number of small firms, over a period of four to six years. Based in network theory, it explores the relationship between the central firm and its network; the transfer of resources and capabilities, the firms' product and process innovation and the firms' strategic orientation. The research design, following Yin (1984), uses detailed case studies of the firms. The cases are treated as a series of independent experiments, and are used to test the propositions suggested by key aspects of the literature reviewed briefly below. Using replication logic, comparisons of the cases are used to confirm or refute the initial conceptual insights.

Objective 1 of the EU Structural Fund seeks to 'promote harmonious development' and 'to narrow the gap between the development levels of the various regions'. ([Http://europa.eu.int/comm/regional_policy/](http://europa.eu.int/comm/regional_policy/) 2002) More than 135 billion Euros have been allocated to areas where GDP is below 75% of the Community average. Most of these areas have declining primary industries and a geographical remoteness which is considered to have contributed to the declining economic status. Investment in these regions is considered vital to improve the local social and economic conditions and projects that are likely to employ more or contribute to the economic health of these areas are encouraged. However the research has frequently concentrated on the disadvantages of periphery to economic development, and identifying ways to overcome these disadvantages. (SWERDA 1999) The poor transport links, limited higher education facilities and decline of traditional industrial clusters are shown to contribute to limited prospects. It is generally been assumed that firms in these regions are less likely to be innovative, creative and internationally orientated. Porter (1990) links the decline of such interconnected industries with reduced competitiveness in the international arena. His recent study for the UK government continues this theme. (Porter and Ketels 2003) Even the literature focusing on supply chains and networks of firms tends to see small firms, particularly those in remote areas, as at the end of very long supply chains, often with poor quality standards and limited aspirations. It is possible however to use models developed in literature on networks, clusters and innovation and see small firms in peripheral areas from another perspective.

Using a case study based methodology, starting with four small successful organisations in different industries, the research starts at a local level and extends out. Twenty firms are studied in total, exploring existing networks of small organisations in a peripheral area. This research is the preliminary, exploratory phase of a much larger study of small to medium sized enterprises (SMEs) in peripheral regions. The purpose of this exploratory research is to identify areas for further study, seeking to identify a range of ways in which SMEs use networks, particularly in relation to their innovative activities and international orientation. The questions addressed here are: are networks used to extend small firms' resources? What resources are acquired via networks? Do networks facilitate innovativeness? Do networks contribute to international orientation? Does the peripheral area constrain networking? What sorts of networks exist?

NETWORKS AND INNOVATION

There is a diversity of conceptual frameworks, methodology and data contributing to the study of the extent of creative activity by small firms in geographically and industrially peripheral regions. The large firms perspective has dominated the literature on the management of both the internationalisation and innovation process. Both transaction cost based theory of internationalisation (Buckley and Casson 1979) and the Upsalla model (Johanson and Valne 1977) of experiential learning and gradual international commitment, emphasise the way foreign markets are selected by firms who are already competitive on a national scale, and now seeking success abroad. However the Upsalla model with its emphasis on iterative knowledge acquisition and a less competitively orientated, more co-operative strategy of internationalisation, is capable of being extended so smaller firms can establish positions in relation to foreign counterparts. Later studies of long term relationships between suppliers and customers emphasises the complexity of these international business interactions, as individuals and groups throughout organisations develop bonds where technological knowledge, social contacts, economic agreements and logistical co-ordination develop both tangible and intangible resources for firms. There is however limited exploration of the small firm perspective.

The internationalisation of isolated small to medium sized enterprises (SMEs) is however, discussed by Buckley (1992) who draws attention to the innovative nature of the first steps towards the internationalisation of firms but argues that limitations of proprietor time and management skills are a serious constraint upon SMEs' deepening international commitment. In addition, Buckley draws attention to the vulnerability of SMEs to product, market and technological change. The international arena will expose the firms to even more risk. Strategic decisions, constrained as they are by limited managerial skills are likely to be based on individual perceptions and prejudice, taking opportunities when they appear rather than evaluating a range of opportunities carefully. Buckley also suggest that SMEs are likely to internationalise for reactive rather than proactive reasons; pulled by larger firms or pushed by poor home-market conditions. At best they may find niches left by large firms, where economies of scale are not available. Essentially small firms are ignorant and vulnerable in international markets. The increased interest in the use of networks by organisations as they effect a variety of innovative strategies from new product development to internationalisation has produced a substantial body of research in the last decade. The research uses social network theory and applies it to business networks (Gadde and Mattsson 1987), and emphasises the importance of identifying network links considered to be important by the firms themselves, rather than by any objective measure of usefulness. (Johanson and Mattsson 1992) The intangible resources accumulated as a result of long term investment in these relationships contributed considerably to the range and complexity of the resources accessible to any firm. Johnson and Mattsson's research focuses on the dynamics of the process of gradual internationalisation, where firms increase their knowledge, following Upsalla Model, but not necessarily in a continual progressive way. They may develop contacts but not use them, let contacts lie dormant, extend into other areas, then revitalise links. (Johanson and Mattsson 1988).

The literature on networks, the relationships organisations have with each other in national and international markets draws our attention to a complex and developing range of activities occurring at the interface of environment and organisation. Starting with the links any firm has with their suppliers and buyers, Johansson and Mattsson's research uses the terms 'production' and 'market' web's to describe the extension of the simple market relationships to include longer term arrangements bringing firms closer together over time as they develop existing and develop new products and processes to improve the competitiveness of both partners. In addition this research identifies 'national' webs where firms with common interests are bound together to the boundaries of the country. (Johansson and Mattsson 1988) Studies examining the uses to which networks may be put by SMEs in developing innovative strategies has been explored in Butel (2001) but this research identified how little we know about the degree of internationalisation of SMEs in peripheral regions, how innovative they are and how they are able to establish and utilise appropriate networks of relationships. To some extent it may be supposed that business networks reduce both the ignorance of small firms and their vulnerability in international markets as identified by Buckley (1993). The question posed by his assertion that small firm strategy tends to be reactive rather than proactive, also remains. The importance of networking for small firms in relatively isolated economies is explored by Chetty and Blankenburg Holm (2000). This study examines how networked resources were used by small firms moving into the international arena from New Zealand. This study extends the literature on networking by comparing, the 'organically' developed networks in New Zealand, with those encouraged by the government. The latter are called by 'formal' networks by the authors. However the word 'induced' may be more appropriate since 'formal' implies and is sometimes used to mean the market-based links firms start with, before more complex relationships develop. The formal or induced networks consisted of joint action groups to promote exports in certain industries, combined action groups from different industries to encourage new activities unachievable by smaller firms and finally industry clusters by related firms in close geographical proximity.

The emphasis of most work on network strategy is the element of mutually beneficial co-operative activity, extending beyond short term market exchange. The literature on economic clusters also makes a considerable contribution. From the early studies of Emilia Romagna, Italy, (Piore & Sabel 1984) clusters have tended to be used where geographical proximity of firms in related industries has resulted in the prolonged success of small independent entrepreneurial, flexible firms serving local to global markets. With clusters, the agglomeration economies are of particular importance both to the success of the cluster and the individual firms. Clusters depend upon traded and untraded interdependencies, the former reducing transaction costs, the latter as Amin and Thrift (1994) argue facilitating the gathering of information and knowledge. These agglomerations establish coalitions conducive to entrepreneurial creativity. It is even argued that the development and testing of innovations is not possible in geographically dispersed circumstances. (Amin and Thrift 1994) The cumulative effects of developing industrial synergies, skills development and information exchange results in the dependency of location's success upon the path taken over time. However, it is clear that whilst an area may benefit from the clustering of related firms, it may also fail to adapt to changing economic conditions and the positive dynamics of association are reversed causing industrial decline. The literature on clusters is by no means all positive. The artificial creation of viable clusters has yet to be proved possible (Chetty and Blankenburg Holm 2000)

The difference that must be identified between the literature on networks and that on clusters relates to differences in the closeness of the ties, the path dependency (as opposed to duration) of the relationships and the geographical proximity of the organisations. Networks can be supply chain orientated, i.e. production and market based networks. They may develop organically, may be encouraged by government action, may form around key 'hubs' of large, creative or innovative firms and may be part of the increasing accumulation of knowledge by organisations as they grow and internationalise. However, network relationships are looser than clusters, and they may be dynamic, in a state of continual flux, depending on the needs of the individual firms. They are not constrained by geography. Indeed much of the research done on strategic alliances and joint ventures by firms operating in the international arena suggest that it is the remoteness and therefore ignorance of foreign markets that prompts firms to form informal and formal networks of relationships in the first place (Forsgren and Johanson 1992). Some research into clusters does, however, emphasise the importance of small firms in a way most network research has failed to do, except where they are used as the flexible fringe, the additional capacity of larger firms without the financial commitment of ownership. (e.g. Donaghu and Barff 1990) The use of small firms in this way however usually assumes their almost total dependence upon a much larger organisation, where the small firm is used as part of the large firm's strategic plan. Strategic networks developed by dominant firms are not the same as strategic networking by groups of these autonomous organisations. Business networks are the result of the interactions over time of largely autonomous organisations. There is clearly a gap in the literature with few studies of the international orientation and innovativeness of independent small firms, particularly those in geographically and industrially remote regions. We actually know very little about successful SMEs in peripheral regions and many of the conclusions we draw about the impact of peripherality may be inappropriately drawn from the extrapolation of models developed from the study of large firms in more central locations.

De Propriis (2002) has drawn attention to the use of inter-firm co-operation in an industrial area examining the apparent conundrum that despite low levels of investment in research and development (R&D), small firms tended to be more innovative than larger ones. De Propriis concludes that co-operation by firms may at least be a complement to investment in R&D, for firms seeking to innovate. Inter-firm co-operation may even be a substitute for R&D spending. There are significant implications for European regional policies if co-operative action by firms, usually in clusters or geographically close networks, are proved to be best at innovation and therefore successful competition. Certainly work such as that of Diez (2001) suggests that to encourage innovation, firms need first to be encouraged to behave co-operatively. Using the principles established in Upsalla and detailed by Forsgren and Johanson (1992), this research starts with the assumption that international business occurs in a network setting. The links between the organisations occur through direct and indirect relationships. Managing those relationships over time is central to the development of the organisations. It assumes that understanding the processes whereby firms develop, and utilise tangible and intangible resources acquired from knowledge via their external network, is of prime importance to our understanding of why some firms succeed in geographically remote areas. This will contribute to our understanding of where Objective 1 funds might best be spent. Having identified a gap in the literature this research explores if networking or co-operation contributes to innovativeness, in small firms in peripheral regions. In these days of almost instantaneous global communications, to what extent are these firms tied by the constraints of geography? It is possible that in seeking to create a new industrial cluster, the flexibility and creativity of organic co-operative agreements will be constrained.

Pittaway et. al. (2004) concluded that networking played a pivotal role in innovation and was crucially important in venture creation and small growing firms. The diversity of network ties was seen to have a positive impact on both innovation and performance. Granovetter's (1973) study of social networks drew attention to the advantages of weak as well as strong social and economic ties. More recently Granovetter has argued that more novel information flows through weak ties than stronger, more established ones, which is more conducive to the development of innovation. (Granovetter 2005) Buderl and Preisendorfer's (1998) study found that small firms' very survival depended on the existence of strong (social) ties, such as support from friends and family. Novice entrepreneurs make extensive use of their personal network of contacts, friends and family, in the absence of business links, to access business (economic) resources. These existing ties are then extended to access additional resources and capabilities to supplement their original asset base. In terms of resources, a large network can be critical to sustainability and growth of a firm, and in terms of innovative capacity, access to a diverse network can be critical. (McElvily and Zaheer, 1999) A hub within a business network may be seen as a bridge of 'structural holes', the link between many diverse and separate networks and therefore privy to resources from all sides. (Burt 1992) Within supply chain networks a major firm may be the hub, and manage the network to further its own and the network's innovation strategy. Government or industry bodies can act as brokers between ties and develop and manage networks. However it is the management of networks to further individual and network innovation that is least well understood. That in part is due to the lack of detailed evidence.

Hoang and Antoncic's (2003) review of network based research in entrepreneurship concludes that many of the, albeit extensive, surveys conducted were constrained by conceptual vagueness relating both to definitions of valuable productive resources and capabilities and to measurements of networks size, structures and strengths. Establishing a causal link between network size and diversity and innovative activity in business has therefore proved difficult. With this in mind, this research focuses simply upon the use made by a number of SMEs and a single hub. The small firms are classified according to their age and size, measured by numbers employed and annual turnover. The strength of the link between the hub and the SMEs is examined in relation to the length of time the link has existed, the frequency of contacts between the two organisations and the significance of the link to the small firm, measured in terms of the contribution made by the hub to an increase in the small firm's profitability, innovativeness and market growth and extension. All the small firms have elected to establish and then to extend links with the hub. These small firms are therefore proactive both in terms of the establishment of a potentially useful link and in terms of their propensity to innovate. The small firms have these factors in common. The small firms make different uses of the same link over a period of four to six years. This research explores the extent to which these differences can be explained by the age and maturity of the firms, the strength and age of the link between the organisations, the small firms competitive position, their access to complementary resources and capabilities and finally the strategic vision of their managers. The research is exploratory in nature, seeking to understand the way in which these diverse firms use this same central organisation.

METHODOLOGY AND DATA COLLECTION

The research is part of a continuing study of around 100 small companies in several different sectors. Data studied includes retrospective company accounts and competitive analysis, current observations and analysis of processes leading to innovations and summary data from end of project reports. The current data set consists of four firms, two of which are relatively new and two of which are more mature. Data was collected through interviews, observations, secondary sources and company reports as appropriate. This data was supplemented by interviews with key protagonists; company directors, employees, and outside supporters of the firm. Each case provides a detailed study of a minimum of four years in the individual firm's development. The study includes observations from data contained in the minutes of the monthly meetings, retrospective data sourced in the final programme reports, strategic and financial analyses of the companies before establishing the link and annually thereafter. Finally the interviews with key protagonists, provides supplementary qualitative data. The interviews were conducted over one to one and a half hours, notes were taken were transcribed. The interviews were undertaken with the owner/manager of each company and the external project manager. The semi-structured interviews with the firm's owner/managers consisted of questions exploring the firm's innovation strategy over the period, the strength of the firms' network ties and ways the ties have changed over the project. The interviews with external managers were less structured consisting of open-ended questions about the firms and the transfer of knowledge leading to innovation.

The research was been designed to explore how small firms in geographically peripheral regions innovate and internationalise given their limited internal resources (Buckley 1993) and peripheral location and limited local

clustering (Porter 1990, Porter and Ketels 2003). The primary data for this exploratory survey consists of four geographically close companies of varying size. The sample is of firms that need, as a result of their particular industry, to be based in the peripheral location they have chosen or one very like it. Therefore the geographically peripheral area is central to their production activity. The firms chosen are growing and are innovative and creative. The methodology is qualitative, as detailed by Yin (1989, 1991) and by Eisenhardt who focuses the use of case material in generating theory (1989, 1993) The cases were chosen both for their similarities: the importance of the location and their success and innovativeness, and for their dissimilarities: the different industries, range of sizes, age and history, as recommended by Eisenhardt (1989). Each case is examined first in isolation and then in relation to patterns of activity which can be generalised across the four cases. (Eisenhardt 1989) Yin's (1989) approach suggests pattern matching as a means of analysing data. Each firm was visited and the activities observed. In addition the CEO or a Director or Directors of the organisation were interviewed using a semi-structured questionnaire. Direct access to the main strategist or strategists in the firm resulted in an accurate exploration of the organisations' overall priorities. The questionnaire sought to examine the firms' views of the importance of their networked links. Five key network links were chosen by the firm and then followed up in a round of further interviews using a very similar semi-structured questionnaire. Secondary data on all twenty organisations, including company reports, web-site material, newspaper reports and other published works was also used. The use of multiple sources of evidence, reinforces the evidence base, provides a wealth of relevant detail and confirms the importance of the case study method. (Yin 1989) Each case study was then written up and a copy sent to the first round organisations to ensure the data accurately reflected the information provided.

The cases chosen were, with one exception, small firms operating in an area 512 sq. kms. square in South East Cornwall. The exception is the Eden Project, a firm that has grown from its inception in 1996 and opening in 2000, to be one of the largest employers in Cornwall. It is no longer an SME, but its rapid growth in less than three years is an indication of its success. The County of Cornwall is bounded on three sides by the sea, with a coastline of 697 kms indented with ancient harbours and granite moorland cut by deep wooded valleys inland. The economy has a predominance of small firms and few major employers. 97.% of the businesses employ fewer than 20 employees (www.cornwall.gov.uk) Cornwall has no university, no international airport and limited regional air links, no motorway and rail journey times are at best three hours away from Bristol, its regional hub, and four and a half hours from London. The existing clusters of mining and quarrying and fishing, which were geographically close, are in serious decline and the agricultural economy generally, which is pervasive in the county, continues to network but its innovation and creativity is limited by history and perhaps by EU regulation.

EXHIBIT 1

Round 1 Companies Interviewed

Company Name and Age	f/t equivalent Employed	SIC	Sector/ Primary Activities	Locational Advantages
TM International School of Horsemanship 21 years	4 plus 14 students/ apprentices = 10	92.62/9	Training in horse riding and care, riding holidays, lessons	Direct access to wild moorland for hacking
Lynher Valley Dairies 12 years	30	15.51/2	Cheese Making and Dairy Farming	lush pasture for dairy herds
Camel Valley Vineyards 10 years	6	01.13/1	Grape Growing and Wine Production	southerly latitude, warm, south facing steep sloping valley
Eden Project 3 years	600	92.53/0	Education and Entertainment in Botanical Gardens	warm south facing, worked out quarry pit

The Interviews

The interviews explored three main areas. First they sought to establish the primary activities of the organisation, their principal resources, and the degree of internationalisation. Secondly, the interview examined the components of the organisation's network of formal and informal contacts, how important they were to the firm, and at which stages in the firm's development they were used. Finally the interview explored the importance of innovation in the industry and to the firm, how ideas were generated, and the importance of the organisation's network both in the generation and conceptualisation phase of innovation and the planning and implementation phase. The interviews were short, of one to one and a half hours duration, followed if offered by a tour of the premises and further informal questioning. The questions asked were not related to what might be considered confidential or commercially sensitive information. No interview requests were refused. No questions were avoided. No firm requested anonymity. Second round interviews followed the same format with no specific reference to the first round firm that had recommended them. This meant that it was possible to see the importance of the network link to both parties and to understand how the **Round 1** firm might benefit from the extended network links of its **Round 2** partners.

Case Study 1: Tyrrell-Moore International (TMI)

The oldest established firm Tyrrell-Moore International (TMI) was established over 22 years ago to take advantage of the spectacular moorland riding country. The firm offers riding lessons, moorland hacks, livery services, training in the care of horses, riding holidays and training for students in equestrian careers. The owners are fluent in Scandinavian languages, having lived in Norway for many years and also speak French and German. In addition to horsemanship, EFL is offered by a qualified teacher. The horse and riding industry is a major employer in the UK, particularly in agricultural areas. It is estimated that 250,000 people are employed, either directly looking after horses and stables or indirectly in horse transport, feed merchants, equipment suppliers. 2.6 million people ride on a regular basis, more than play football or attend matches regularly. Riding is regarded as a hazardous activity and therefore the quality of the equipment, horses and tuition received are all very important. The most significant link for TMI is the registered charity the British Horse Society, maintaining and accrediting over 700 riding schools in the UK and all over the world. The BHS publishes a quarterly magazine, offers veterinary and legal advice and regular regional events where owners of riding schools can get together to exchange ideas and discuss issues of concern. Membership of the BHS is by subscription, however riding school accreditation is by regular inspection of equipment and facilities, observation of lessons and examination of students. Advice thereafter is free. The BHS Accreditation cannot therefore be considered traded since it cannot be bought, but it is essential to the competitive advantage of the organisation.

The second contributor to the Riding School's network is the Local Authority, Caradon. Legally the local government authority is required to use local veterinary surgeons inspect the tack and horses, providing a Health and Safety certificate, public liability insurance and thus the permission to trade. Again this is a non-traded but none-the-less formal resource acquired via the network. It cannot be simply purchased but must be earned by adhering to national or internationally recognised standards. The support of the local vets is an important part of the School's network. The Local Authority also provides access to the network of firms offering services to tourists. The School is listed as one of the attractions of the area. The third contact is via the School's provision of horsemanship training sessions at a number of local further education colleges. Attended by a total of fifty or so horse owners and riders each year, this networks allows the school to keep in touch with the requirements of horse owners who do not ride at the School but are often aware of changes in the riding environment. In addition some may use the School's livery service. Fourthly the proprietor cited a local agricultural supplier co-operative. In addition to supplying feed, clothing and equipment, the co-op has an equestrian club where other environmental information may be sourced. Finally there is the association of regular riders at the School who organise social activities and riding competitions and feedback their needs and ideas to the School's management.

Within the context of a small specialised riding school the environmental change can to be changes in the accounting or legal environment or factors affecting the access to the school. Thus whilst the remoteness is an advantage, inaccessibility caused by poor rail and bus links is not. Change is continual but not generally substantial. The network is tapped for advice, assistance and ideas. The BHS provides legal advice, the local authority advising on tourist related issues, the Riders' Club identifying improvements to the service provision. Innovation ideas may be initiated by the Riding Club members but generally the proprietors draw together all kinds of environmental data when they formulate a new strategy such as the most recent idea to build an indoor riding arena to provide all weather facilities. Considerable support has come from the school's extensive

network of horse owners, riders, vets, students and tourist leaders. TMI is a mature firm in a relatively stable environment. The pattern of its chosen primary network links suggests its priorities are the consolidation of its existing business through the maintenance of clear, internationally recognisable accreditation of quality and standards of the services it offers. Its links are predominantly local but its business is the most international of the four cases. However it is clear that it is its local credentials that make it competitive internationally. The BHS accreditation serves to advertise this to an international market.

Case Study 2: Camel Valley Vineyards (CVV)

Camel Valley Vineyards grow grapes, produce wine and sell the wine through a range of distributors and their own winery and shop. Their principal resources are the grapes and the south facing slope above the river Camel. They employ few people. They subcontract the chemical analysis of the wines to Corkwise, a national organisation offering consulting and microbiological services to the drinks trade. This establishes, to internationally recognisable standards, the alcohol content, and the quality of wines produced. Vigo, is a national distributor of equipment for the production, based regionally. Camel Valley is innovative, recently establishing the 'Cornwall' brand of sparkling wine to compete with other brands in international markets, they are exploring new markets and new technology in production. Wine production equipment is imported from Italy and Germany, rabbit proof fences from New Zealand. The methods of still wine production are New World, sparkling wine traditional. Camel Valley Vineyards, although established in 1989, started making wine in 1992. Their chart of key network links suggests an organisation keen on growth. Three key links, Vigo, Corkwise and Waitrose are quality national firms where Camel Valley can establish their credentials in national markets. Berry Bros, is a international major wine importer and exporter with a three hundred year history. The emphasis here is on the establishment of national and some international credentials. The company is ambitious and its links illustrate its chosen strategy. The local link is a brewery that provides quality production advice and assistance in distribution.

Case Study 3: Lynher Valley Dairies (LVD)

Lynher Valley Dairies produces a variety of farmhouse cheeses using milk from their own cows whose blood lines can be traced back many generations. The quality of the cheeses depends upon the quality of the herd and the rich pasture of the valley down to the river Lynher. The dairy operates to the highest technological and hygiene standards, with frequent inspections. They employ over thirty people, many on a part-time basis in their shop and dairy. This case is of a firm most closely linked to older agricultural networks of farmers and milk producers. Although the agricultural industry is in decline in terms of numbers employed and profits made, the networks still exist and are used by the proprietors of this firm to good effect. Lynher Valley Dairies' strategic use of business networks is less easily read than the other cases. The firm is very successful employing a large number in a very rural location, expanding their range and distribution base. Their network links are predominantly supply chain orientated, sourcing equipment locally and distributing through a specialist cheese distributor and the supermarket most associated with quality food and fair, local sourcing. The links along the axis, Taste of the West providing marketing subsidies and the local agricultural college, both providing the untraded advice, consolidate Lyhner Valley's existing strategic position. However there is little evidence in these prime links of their declared ambition to move into the international market, particularly the US. The links are more eclectic than the other cases and reveal less about the firm's strategic direction than other network maps.

Case Study 4: The Eden Project (EP)

The final case study in this paper is the Eden Project. This is a serious horticultural research institute with a clear environmental orientation and a central mission to educate but with entertainment. It was set up with UK Government Millennium funding to open in 2000, with the twin priorities of first, the economic regeneration of a declining industrial cluster of quarrying and processing china clay, and secondly to establish the broad-based horticultural research and educational institute. In this way it has become a landmark project for the Millennium. Every activity is focused on the delivery of the message; horticulture, staff development, catering, and retailing. The resources of the Eden project are considered to be its people and their commitment and creativity. These are essential to the innovativeness of the organisation. Although they are frequently asked to export the concept in locations all over the world, and would welcome the spreading of the message, they believe the specific location, history and people make the concept unique. As the concept of global awareness is central to the message, global focus is essential. Although the standards are global, the sourcing as far as possible is local. 80% of their food stuffs, plants and other retailed items are sourced locally. The Eden Project invests in the future of small businesses locally to assist them in their development to meet global standards.

Location limits the number of overseas visitors to 10%. They have developed horticultural products and concepts which have the potential for future exporting. The both the concept and its realisation are innovative. Unlike many horticultural gardens, they do not display rare plants but common ones. They tell the story of these plant roles in our lives. The 'managerial anarchy' of enthusiastic amateurs encourages the generation of innovative ideas, whilst the pragmatism of rigorous peer group scrutiny and subcontracted project management brings them to fruition. Identifying five key links was difficult. They actively encourage networking on all their many fronts. Most links develop from informal approaches. As the project developed their network grew. The following chart was their idea of current and likely future contributors to their resources.

The Eden Project is the most successful organisation studied here. Its rapid growth in very a few years has meant that a group of what they admit to be enthusiastic amateurs, have had to learn very fast. The focus of their network is first, a very clear international orientation despite limited international sales, and secondly they want to get the product right. Three of their key links are global organisations offering world class services to the Eden Project. Each global link, Cisco (IT) Systems, Davis, Langdon and Everest (Project Management) and the extensive network of university based horticulturists, indicates that the Eden Project's priority at this time, is getting the Project right to a world standard. The Government Office South West, GOSW, are the regionally based agent of many national and international funding and other decisions affecting the South West region. GOSW provides induced, untraded financial support and advice for the Eden Project. Unusually for induced, non-traded links, the success of Eden means their experience is providing some feedback to GOSW. Other untraded links of this kind tend to be unidirectional. Finally the sole local link is the organic food supermarket, Carley's. This company sources as much local, organic produce as possible. They sell via their shop and by delivery. The Eden project sees their catering services as central to explaining their core environmentally aware, educational message. They aim for global standards but local production insofar as possible. Carley's is one of many local producers to have benefited from traded and non-traded links with the Eden Project.

DISCUSSION

In all these firms, the location is essential, often very specifically, such as very southerly, south facing slopes for wine production, direct access to hacking country for riding, a deep, south facing worked-out quarry for 'greenhouse' horticultural exhibition of exotic plants. Although all contribute to tourism, only the Eden Project is a major tourist attraction. All firms are well aware of the importance of continual scanning the environmental information electronic and more traditional methods; journals, magazines, trade association meetings, are all useful sources. Environmental scanning is considered essential to the continued creativity and innovative activity of these organisations. The networks of organisational links were those *considered to be important by the managers interviewed* as Johanson and Mattsson advise (1988). The links were first differentiated by the characteristics identified by the existing literature: The acquisition of intangible resources via supply chain links, i.e. an organisation's suppliers and customers, also via non-trading links. Secondly the literature distinguishes between the scale of the network. Here we have identified locally based network links (i.e. within 32 kms of the Round 1 firm), regional links (i.e. based within the defined South West region, up to 400 kms away) plus national and international links. The principal resources of these firms are declared to be their location, people, blood lines of herds, grapes, horses and reputations. All firms extend these resources using networks. These networks extend very easily into the international arena, allowing these organisations to access international standards, international methods of production and international markets. These small companies are constrained by their limited financial resources but strategic decisions appear to be taken with considerable research. One of the main constraints of small firms in this peripheral area is the desire to remain independent rather than to become part of the supply chain of much larger firms. Small firms are well aware of their vulnerability vis-à-vis the multinational conglomerates.

The distribution of network types is broad. Firms cited a range of key links in several different locations. Each network link appears to have been chosen to serve a specific purpose rather than because of proximity. All traded links were used to exchange more than the traded items. In many cases both sides of the exchange felt that each link was close and mutually beneficial. The CEOs of larger organisations generally knew little of the specific small firms and whilst it was clear that the development of such networks was company policy, it was not pursued by the CEO. Only with the Eden Project, with its clear regional and environmental orientation, was the development of local small businesses so high on the agenda of the directors. All these small independent organisations are internationally orientated, using general informal environmental sources to scan for ideas, key network links to establish and maintain international standards, ensuring export potential, and then exporting to varying degrees. All use high quality, globally sourced equipment in production. All value their formal network links, described above and their informal networks of friends, trade associations, web links, magazines

and journals. Innovations are constrained by lack of funds, fear of risk exposure and limited opportunity. However all firms are initiating significant innovations to their products or services. In all cases it would appear that the ideas for the innovations were generated within the organisation, after general environmental scanning. However the feasibility of ideas was assessed and implementation effected with continual and highly valued inputs from network partners. This suggests that the network is critical in the generation and implementation of innovations by SMEs.

EXHIBIT 2 Forms of International Orientation

	<i>Internationalisation of output</i>	<i>Internationally networked resources</i>	<i>current/planned innovations</i>
TMI	<ul style="list-style-type: none"> - 60% students 10% holidays = 50% - regular, frequent, planned 'exports' 	<ul style="list-style-type: none"> - Accreditation by BHS, British Horse Society:- internationally recognised standard - BHS strategy to extend international brand awareness 	<ul style="list-style-type: none"> indoor riding arena for all weather, and all seasons riding
CVV	<ul style="list-style-type: none"> - limited but expanding export opportunities in US 	<ul style="list-style-type: none"> - 'New World' production methods - Italian and German equipment - UK and European producers' networking group meetings 	<ul style="list-style-type: none"> sparkling wine
LVD	<ul style="list-style-type: none"> - small number of exports via third party 	<ul style="list-style-type: none"> - EU and US standards of production hygiene, safety and quality. 	<ul style="list-style-type: none"> New cheese varieties, US market
EP	<ul style="list-style-type: none"> - 'exports' limited by location to 10% but increasing 	<ul style="list-style-type: none"> - exhibits globally sourced, - concept world standard - collaboration with international research institutes and universities 	<ul style="list-style-type: none"> New education centre New major biome for desert exhibits

CONCLUSION

This exploratory study investigates whether the different forms of co-operative arrangements between firms identified in the literature on networks can be found in SMEs in a peripheral European region. This research focuses on how firms use their supply chain orientated customers or buyers, how the traded links are extended, it also examines non-trading relationships, organic and induced links and finally looks at the local, regional, national and international links. This detailed analysis of four firms may be insufficient to develop any substantial theoretical conclusions, but it does clearly identify the need for further research. Research that models regional economies focusing exclusively on clusters but ignore networks may result in overestimating the disadvantages of periphery. Innovative strategies including internationalisation may depend on exposure to less closely related firms than those that exist in clusters. In clusters the generation of innovative ideas may be constrained by the proximity of like-minded firms. This research suggests that whilst the limitations of capital, information, knowledge and management ability may constrain the number of innovative strategies that can be taken as the literature suggests, successful small firms in peripheral area are aware of these factors and use their networks to minimise their impact. Most networks links identified as important appear to develop within supply chain (i.e. production or market) associations, over a number of years. The market based link supplemented by the development of the untraded dependencies. The financial incentives and managerial advice of agencies such as GOSW, Business Link and Local Authority business advice centres are welcomed, seen to be important and utilised if appropriate. Whether they can be considered a network resource is difficult since the process is clearly unidirectional and not necessarily long term. Networks are co-operative arrangements which are dynamic so that different elements of the network can used at different stages in a firm's development. Old network ties are sometimes recycled in new forms. It may be that geographically remote regions can have

creative, innovative and internationally competitive firms by establishing clear, internationally recognisable credentials; acquiring and utilising technology of an international standard and maintaining and exploiting the existing natural advantages of the locations.

Four network ties were studied. The ties were to firms in many different industries, of different ages and with different degrees of maturity. All the SMEs established the links with a clear intention of developing their business through one or more specific product or process innovations. The ties were known to provide access to a range of resources and capabilities and also thought to be the 'bridge' to access others. However the development, management and use of the network ties varied considerably between the firms over the period studied. One firm, for example had a clear strategic plan for the duration of the network tie and a specific output required. Another wanted access to largely financial resources and was reluctant to let the network develop. The records and interviews show that the development of the link between each small firm and the central hub, was frequently quite different from that anticipated. All the small firms developed a range of new products and processes over the period studied, as intended. The link strengthened their strategic and operational management, a recognised weakness in small firms. In addition the link was used to explore the possibilities of more radical innovations: new products, new markets, radically different processes. However, managers did not consistently view the successful innovation to be the result of the network ties. The richness of the data does provide substantial evidence of the emergence of a network and identifies areas which would benefit from continuing investigation particularly in relation to the partners' different perceptions of network strengths, contributions and success.

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FEMALE DIRECTORS AND SMES: AN EMPIRICAL ANALYSIS

Antonio Mínguez-Vera, University of Murcia, Spain
Raquel López-Martínez, CARM, Spain

ABSTRACT

The topic of gender has attracted the interest of researchers in recent years. However, most empirical results are based on listed firms. The aim of this paper is to study gender diversity on boards of directors in a sample of 10,786 Spanish small and medium enterprises (SMEs) using panel data analysis. The results show that gender diversity in the boardroom has a positive effect on firm performance. Also, the presence of an individual who is a main shareholder has a positive impact on female representation on the board of directors. In contrast with this, having a non-financial firm as principal shareholder diminishes the probability that women will be appointed to the board. The results indicate that women directors prefer to be on the boards of firms with less financial risk. Finally, smaller firms and larger boards include more women as directors.

Keywords: Gender, SME's, directors

INTRODUCTION

In recent years there has been a pressure from society to include women on the boards of directors of corporate bodies. As result, in Europe, the average number of women in boardrooms has increased in recent years (Heidrick and Struggles, 2007). However, female representation is still at a low level compared to the U.S. and there is wide variation across countries. At the same time, scholars have studied the effects of the presence of women in the boardroom. They argue that women directors can have an important influence on the way that the board works, its working style and board processes, and, consequently, on firm performance (Bilimoria and Piderit, 1994; Daily et al., 1999; Farrell and Hersch, 2005).

The majority of studies that examine board diversity focus on large firms. Recently, a number of researchers have addressed the need to study the board of directors as a potential resource in Small and Medium-sized Enterprises (SMEs) that can lead to competitive advantage and improved firm performance (Gabrielsson, 2003), and women can offer many contributions to the effectiveness of the board (Bilimoria, 1995, and Segal, 1996).

The present study focuses on gender representation on boards of directors in SMEs in Spain, which is one of the countries with the lowest level of female representation on boards in the European Union. In response to the challenge of under-representation of women on boards, two legislative measures have recently been passed in Spain: the *Unified Good Governance Code* (2006) and the *Gender Equality Act* (Ley de Igualdad, 2007), similar to the one passed in Norway (2003).

The objective of this paper is to answer the following questions: How are women directors important in Spanish SMEs? Does gender diversity of Spanish boards of directors of SMEs have any impact on firm performance? What characteristics of Spanish SMEs influence the presence of women on boards? By addressing these questions, the present study contributes to the literature in several ways. First, it provides empirical evidence from Spain, where there has been an open debate about gender equality based on the legislative changes in favor of women. Second, the study focuses on SMEs, which is an area that has been ignored by the majority of empirical studies that have been undertaken. By focusing on SMEs, the study examines the firms where the majority of the employment is generated. Third, the analysis uses GMM methodology, which makes it possible to control for heterogeneity and endogeneity. This methodology has rarely been used in the study of this topic.

The paper is structured as follows. In Section 2 the theoretical arguments are developed and the Spanish context described. Section 3 reports the data selection and the sample. Section 4 describes the methodology applied and Section 5 presents the results. The main conclusions are in the final section.

BOARD DIVERSITY AND THE SPANISH CONTEXT

Board diversity

Recently, researchers have begun to investigate work group diversity (Bracatto and Patterson, 1999 and Carter et al., 2003; among others), defined as the variety of individual attributes within a group (Blau, 1977). Milliken and Martins (1996) differentiate between two types of diversity: observable and non-observable. Observable diversity is related to detectable attributes such as race, age or gender. These differences between people are visible and they can be connected with bias, prejudice and stereotypes. Non-observable diversity is associated with less visible or underlying attributes such as education, technical abilities, functional background, length of service in the organization, socioeconomic background, personality characteristics or values (Milliken and Martins, 1996).

The literature about the effects of diversity on the performance of work groups is extensive and varied. Robinson and Dechant (1997) argue that greater diversity in working groups implies a better knowledge of the market and a best identification with customers and employees, and thus it makes easier to operate in markets. Similarly, Morrison (1992) affirms that diversity in the organizational decision making group may lead to higher quality decisions, since the thinking of the group will be more realistic and complex. So, diversity can increase creativity and innovation and can improve problem-solving (Robinson and Dechant, 1997).

Milliken and Martins (1996) suggest that a diverse team has access to a larger network and, associated with this, access to a larger pool of information, skills, and support that fall within the network. Furthermore, communication between the top management group and non-members may be more frequent and of higher quality when the team representatives come from many different areas of the organization (Ancona and Caldwell, 1988) and organizational outcomes may be improved because the composition of some organizational groups has symbolic significance for both external and internal stakeholders.

There are also arguments that greater diversity may have negative effects on group outcomes. A more diverse group can be less integrated and the likelihood of dissatisfaction and turnover is higher (Milliken and Martins, 1996). Heterogeneous groups are more likely to present communication and coordination difficulties that reduce the effective use of knowledge and skills, and result in less cohesion and interpersonal attraction and fewer mutually satisfying interactions among members (Forbes and Milliken, 1999). Therefore, it is more likely that heterogeneous groups spend more time in meeting preparation, discussion of questions and taking decisions (Lau and Murnighan, 1998).

In this study the focus is on gender diversity in boardrooms. Several studies identify the importance of women directors. For example, Daily and Dalton (2003) considerer that increasing the female representation on the board is a business imperative. They provide a number of reasons: First, in a complex business environment, firms must use all available resources to compete effectively and women represent half of the workforce. It is not logical to waste the skills, expertise and background knowledge of females, which could be used to improve the effectiveness of the board of directors. Second, the presence of females on the board can send a signal to women in business and to women in general. They can play a role as models to promote the breaking of the “glass ceiling” and be considered important “tokens”. And third, women on the board of directors can have positive effects on the bottom line.

At the same time, in recent years, there has been increasing pressure from both society and investors to appoint women directors to corporate boards. These pressures have been represented in equality laws in some countries, including Spain, where there is an open debate about diversity on boards of directors and in society generally. For this reason, the study of the gender situation in the Spanish context is interesting.

After acknowledging the importance of female representation on boards of directors, it is interesting to analyze the various contributions that women can make to the board. In other words, how does gender diversity contribute to the board?

Daily and Dalton (2003) affirm that women directors provide unique perspectives, experiences and work styles as compared to their male counterparts. They can enhance the board's deliberations and their communication style is more participative and process-oriented. The presence of women may enhance decision-making processes by encouraging the board to consider more strategic options and a variety of customer needs and interests. The presence of women may improve the image of the firm and this may have a positive effect on customer behaviour (Smith et al., 2006) and can introduce more creative discussion on the boards. In contrast with this, Adams and Ferreira (2002) argue that the gender of a board member does not imply any different behaviour in the management of the firm.

Finance and accounting researchers have investigated the influence of women directors on firm performance. These studies, like the present study, have tested for a direct relationship between the presence of women on the board and firm performance. The empirical evidence is inconclusive. For example, Carter et al. (2003), Erhardt et al. (2003), and Harel et al. (2003) find a positive and significant relationship between performance and women presence on the board. Similarly, Jehn and Bezrukova (2004) report a negative and significant relationship between the percentage of female board members and several accounting measures of financial value. Watson et al. (1993) and Richard (2000) identify a non-significant relationship between gender diversity and firm performance.

The majority of previous evidence is focused on listed firms. However, the interest in the boards of SMEs has increased in recent years (Daily et al., 2002; Gabrielson, 2003). Forbes and Milliken (1999) identify several differences between boards of directors of SMEs and listed firms. They argue that SMEs tend to be undiversified, less structurally complex, and less formalized. Therefore, the range and depth of service activities available to the boards of small firms are likely to be greater. These circumstances can form a stronger link between the board's service contributions and firm performance. The directors of small firms may be entrepreneurs with relatively little general experience, and the board's knowledge and skills may be a particularly critical ingredient of its own effectiveness. Finally, share ownership is usually more concentrated in SMEs, which implies that shareholders are often represented directly on the boards and the control function is less important because shareholder rights and managerial responsibilities will reside in the same people (Forbes and Milliken, 1999). In this way, it is possible that, on the board of an SME, women assume more of a service role than a control role.

It is likely that board composition is more important in the decision-making process in SMEs because in smaller groups each director can have more power. Consequently, directors' power is increased because there is less separation between ownership and control.

In accordance with the majority of theoretical arguments and the empirical evidence, the following hypothesis is proposed: *Hypothesis 1*: gender diversity on boards of directors will have a positive effect on firm performance.

Farrell and Hersch (2005) argue that, as women directors are a rare resource, they can select boardrooms of firms with higher levels of performance. This suggests *Hypothesis 2*: a positive relationship between the performance of a firm and the presence of women on the board is expected (Adams and Ferreira, 2002).

On the other hand, Jianakoplos and Bernasek (1998) argue that women are more risk-averse than men. Taking into account these arguments, the following is suggested: *Hypothesis 3*: if women are risk adverse, they will choose to serve on the boards of firms with less risk.

Finally, the following hypothesis is derived from the research of Mateos et al. (2006): *Hypothesis 4*: firms with an individual main shareholder are more prone to adding women to the board for family reasons.

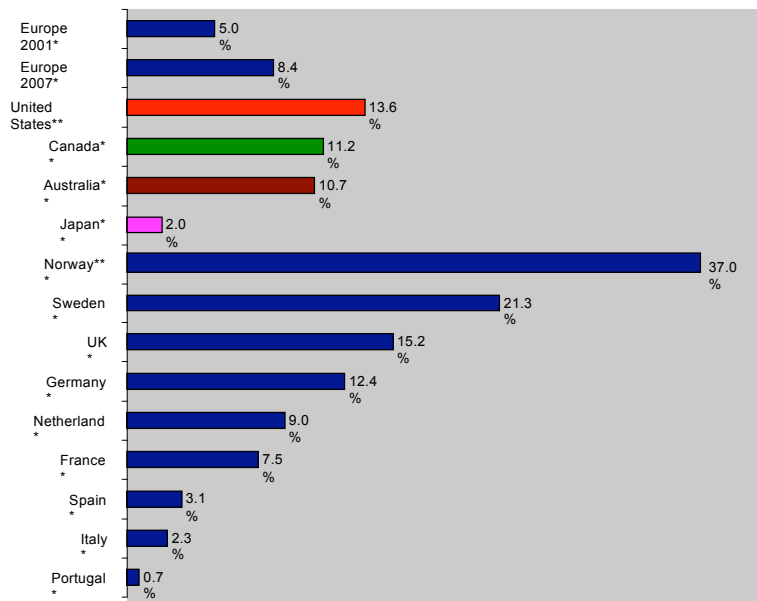
The Spanish context

Traditionally, women have suffered severe discrimination in Spanish society. During General Franco's dictatorship (1939-1975) females were considered second class citizens. In recent decades, a strong move to incorporate women in the work force took place. In 2006 48.6 per cent of workers were women (Instituto Nacional de Estadística, INE), whereas in the 1960s it was only about 21%. Women have massively increased their participation in the university and they are majority of graduates, in business studies as in other areas.

However, there is a gap between these indicators and the access of women to top positions in public administration and business. Figure 1 shows a comparison of the presence of women on boards of directors by country. Spain is in the bottom. To correct this situation, the socialist Primer Minister, José Luis Rodríguez Zapatero, took several steps: He included the same number of men and women in the Cabinet, created the Equality Ministry and promised several legislative changes to facilitate the incorporation of women in public administration and the private sector.

In March 2007 the Spanish parliament approved the Gender Equality Act. On the topic of the board of directors, the law advises that at least 40% of directors should be women by 2015 and companies that do not comply will be unable to negotiate for public contracts.

Figure 1. Presence of women on boards of directors by country



Another support for gender equality is the Spanish Unified Good Governance Code, passed in May 2006 by the Spanish Securities and Exchange Commission). Spanish listed firms have been required to publish a corporate governance report since 2007, indicating the recommendations from the code that they carry out and justifying any failure to comply. The inclusion of this principle is justified by CNMV as “an efficiency objective” and represents “economically rational conduct” and not only social justice and ethic.

Because of these policies, the debate about gender equality has been intense in Spain, but the issue has not been linked to the study of SMEs. It is interesting to know the situation of the Spanish SME’s in term of gender equality and the effect on firm performance and how it can influence it.

SAMPLE AND DATA

Data were collected from the SABI database. This database provides information on 900,000 Spanish firms. Once firms with no data and with erroneous data are excluded, as well as firms presenting extreme values, the remaining firms were used to construct an unbalanced panel comprising 10,786 companies and 43,213 observations.

Gender diversity has been measured in several ways. First, by the “Presence of women” that is a binary variable that indicates the presence, at least, of a woman on the board. Second, the “Women ratio” is included and calculated as the number of women on the board of directors divided by the total number of directors. Finally, two measures are considered that relate to the two gender categories, variety, and the uniformity of the distribution of directors across them, balance. The first one is the Blau index (Blau, 1977) calculated as

$1 - \sum_{i=1}^n P_i^2$, where P_i represents the percentage of directors in each category (women or men) and n is the number of categories. The maximum and the minimum value of this variable are 0.5 (when there is the same number of women and men on the board) and 0 (when there are only men or women directors), respectively. The second index is named after Shannon (Shannon, 1948), and is measured as $-\sum_{i=1}^n P_i \ln P_i$, where P_i and n are defined in the same way as in the Blau index. The range of values is between 0, when there is no gender diversity, and 0.69 when the parentage of each category is the same. Both indexes are analogous but the Shannon index is more sensitive to small differences in the gender composition of the board.

The return on assets (ROA) was used as a measure of firm performance. Other variables included were the logarithm of the variability of ROA over the previous 5 years as a measure of a firm's operational risk and the level of debt, DEBT (calculated as the ratio of total debt to total assets), as a measure of financial risk. Several variables were incorporated that indicate the type of major shareholder: INDIVIDUAL (binary variable that takes a value of 1 when the major shareholder is an individual and 0 otherwise), NONFINANCIAL (binary variable that takes a value of 1 when the major shareholder is a non-financial firm and 0 otherwise).

Finally, a number of control variables were used, specifically, the age of the firm, AGE, the firm size measured by the logarithm of total assets, SIZE and the logarithm of the total number of directors. See Carter et al. (2003) and Farrell and Hersch (2005).

Table 1 reports the descriptive statistics for all variables. The most important conclusion is that the mean percentage of women on Spanish boards of directors is 8.6 percent. This percentage is low but it is higher than the value calculated for large Spanish firms (about 3 percent; see Heidrick and Struggles, 2007). Moreover, only 23 percent of Spanish SMEs have one or more women on their boards.

Table 1. Descriptive statistics

	Mean	Median	Standard Deviation	Minimum	Maximum
ROA	5.881	7.090	15.373	-149,980	174.006
WOMEN RATIO	8.600	0.000	20.100	0.000	100.00
PRESENCE OF WOMEN	0.230	0.000	0.421	0.000	1.000
BLAU	0.078	0.000	0.160	0.000	0.500
SHANNON	0.115	0.000	0.232	0.00	0.690
OPERATIONAL RISK	6.200	6.703	2.049	-1.832	10.769
DEBT	0.616	0.650	0.221	0.000	0.999
AGE	8.664	8.625	0.530	6.159	10.545
INDIVIDUAL	0.627	1.000	0.483	0.000	1.000
NONFINANCIAL	0.357	0.000	0.479	0.000	1.000
SIZE	14.575	14.550	1.553	6.891	17.577
NUMBER OF DIRECTORS	2.648	3.000	2.564	1.000	48.000
LNUMBER OF DIRECTORS	0.974	1.099	0.804	0.000	5.521

METHODOLOGY

To analyze the relationship between gender diversity on boards and firm performance the following equation was estimated:

$$ROA_{it} = \beta_0 + \beta_1 DIVERSITY_{it} + \sum_{j=2}^4 \beta_j CV_{jit} + \psi_t + \eta_i + \varepsilon_{it} \quad (1)$$

where ROA represents firm performance, DIVERSITY includes, in separate analyses, the Women ratio, the Presence of women variable, the Blau Index or the Shannon Indexes (BLAU and SHANNON respectively). CV represents the control variables (DEBT, AGE and SIZE). The terms ψ_t , η_i and ε_{it} symbolize the time effects, individual effect and random disturbance, respectively.

Model (1) is estimated using a panel data methodology, applying the Generalized Method of Moments (GMM) technique (Blundell and Bond, 1997). This procedure makes it possible to control, first, for individual

heterogeneity, introducing an individual effect, η_i and, second, for macroeconomic effect on the dependent variable using time dummy variables. In addition, GMM estimation resolves the trouble of endogeneity that can appear when the independent variables and the dependent variable are determined simultaneously. To remove this bias, this methodology estimates a system of two simultaneous equations, one in levels (using first differences instruments) and other in first differences with lagged levels instruments.

In the final model, the determinants of gender diversity are identified according to the following equation:

$$DWOMAN_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 OPERATIONALRISK_{it} + \beta_3 DEBT_{it} \sum_{j=4}^5 \beta_j MAIN_{jit} + \sum_{j=6}^8 \beta_j CV_{jit} + \psi_t + \eta_i + \varepsilon_{it} \quad (2)$$

where OPERATIONALRISK and DEBT measure the firm's operational risk and the financial risk, respectively. MAIN symbolizes the dummies relative to the type of main shareholder (individual or non-financial). CV represents the control variables (SIZE, the logarithm of the number of directors and AGE). The other variables are as in Model (1).

To estimate this model, a logit panel data methodology was used which is adequate when the dependent variable is binary.

RESULTS

The results of estimating the Models (1) and (2) are shown in Tables 2 and 3. Table 2 presents the effect of gender diversity on firm performance, while Table 3 shows the determinants of women's presence on boards.

Panel A of Table 2 indicates that the presence of women on the board and the Women ratio have a positive and significant effect on firm performance, ROA. Alternatively the return on equity (ROE) has been used as a measure of firm performance and the results obtained are very similar. These results are not reported here to save space. Therefore, female representation on the boards creates an advantage for the firms and the positive effect of diversity on work groups (variety of opinions and strategies) outweigh the problems of integration and slowness in the taking of decisions. This result supports *Hypothesis 1* and it is in the line of the evidence given by Erhardt et al. (2003) and Carter et al. (2003), among others.

The effect of the Women ratio is greater than the effect of the Presence of women variable. This result indicates that increasing the number of women on boards is not only necessary for social justice but it also protects the interests of shareholders. Women bring a different style to board tasks and better environmental adaptation. This is a very important result for SMEs that have to face a competitive market environment.

For the control variables, the debt ratio has a negative and significant effect on firm performance. The negative relationship implies that SMEs may be averse to raising equity for fear of losing control of the firm and for this reason use more debt in their capital structure than would be desirable. Therefore, SMEs can have problems obtaining equity and may adopt an inappropriate capital structure. However, increasing debt may reduce agency conflicts, while employing excessive debt is likely to result in high bankruptcy costs with associated negative effects on performance.

The influence of the firm's age (AGE) on firm performance is negative, too. This result suggests that younger firms may have less inertia and fewer bureaucratic processes. They can be more agile and flexible in response to environmental changes.

Finally, in the sample, firms with more assets (SIZE) have a higher performance in terms of ROA. This last result is not what was expected, and it may be a consequence of the difficulties in obtaining suitable funding on the part of smaller SMEs.

The z_1 Wald Test indicates the combined significance of the independent variable coefficients, while z_2 reports the joint significance of the time dummies. The m_2 statistic indicates that in all the models there is no second-order serial correlation in the first-difference residuals, showing that the models are not mis-specified. Sargan's Test shows a lack of correlation between the error term and the instrument used. It follows that the estimations are adequate.

Table 2. GMM Panel Data Regression relating to the influence of the presence of women and women ratio

and diversity indexes on Return on Assets (ROA)

<i>Panel A: The Presence of women and Women ratio</i>				
<i>Variable</i>	<i>Standard Error</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>Coefficient</i>
Constant	1.544	19.878***	1.518	19.240***
PRESENCE OF WOMEN	0.423	1.154***		
WOMEN RATIO			0.653	1.321**
DEBT	0.353	-11.899***	0.351	-11.981***
AGE	0.176	-1.432***	0.174	-1.428***
SIZE	0.143	0.277*	0.140	0.333**
z ₁	0.000		0.000	
z ₂	0.000		0.000	
m ₂	0.170		0.180	
Sargan	89.92(76)		86.69(76)	

<i>Panel B: Diversity Indexes</i>				
<i>Variable</i>	<i>Standard Error</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>Coefficient</i>
Constant	1.537	19.550***	1.542	19.664***
BLAU	0.944	2.481***		
SHANNON			0.678	1.773***
DEBT	0.352	-11.978***	0.352	-11.960***
AGE	0.175	-1.490***	0.176	-1.483***
SIZE	0.140	0.342**	0.141	0.329**
z ₁	0.000		0.000	
z ₂	0.000		0.000	
m ₂	0.170		0.170	
Sargan	87.06(76)		87.77(76)	

Notes:

***, **, * denote significance at 1%, 5% and 10% levels, respectively.

In Panel B of Table 2 the Blau index measures the gender diversity of the board of directors. Some researchers (Ancona and Caldwell, 1992) affirm that this index is more suitable to measure the diversity than the Women ratio because a board composed only of women lacks gender diversity. The Blau index has a maximum value when there is the same number of women and men on the board of directors. Results are like to those shown in Panel A. This suggests that a mixture of men and women promotes more effective boards.

To test the robustness of the results an alternative diversity index is included in panel B. The Shannon index shows a positive and significant effect on firm performance, in the line with the results shown in Panel A of Table 2. It can be seen that the coefficients of the Blau and Shannon Indexes are higher than the coefficients for the Presence of women and Women ratio, while the coefficients of the other independent variables remain similar to those found earlier. This means that the impact of gender diversity increases continuously up to the point where the diversity of the board is maximised. This result indicates the importance of adding women directors to the board and the significance of a mix of women and men to create adequate gender diversity on the board. Finally, the control variables have the same signs those observed in Panel A.

The last analysis consists in testing for some determinants of women's presence on the board of directors. Table 3 shows the results and indicates that the firm's performance, ROA, does not have a significant impact on the presence of women. There is no indication that women are choosing to serve on the boards of firms with higher levels of performance. This result does not support the *Hypothesis 2* and can be explained by the notion that the boards of better performing firms will prefer to maintain board diversity when a new director is appointed.

For the effect of firm risk on female representation on the boardroom, there is no significant relationship between firm operational risk and the probability of presence of women directors. Thus, women are not affected in their decision to join a board by the risk derived from internal processes, people and systems, or from external events. This result does not support the *Hypothesis 3*. However, a negative and significant effect on the representation of women among directors was found in the case of financial risk, DEBT, which does accord with *Hypothesis 3*. This suggests that women prefer to serve on boards with low levels of debt and low probability of bankruptcy and it confirms a certain risk aversion. Possibly women take financial risk into account because it is easier to identify before joining the board than operational risk.

Firms with an individual as major shareholder (family firms) have more women on their boards of directors. However, when of a non-financial firm is the main shareholder, the probability of women's presence on the board diminishes. This confirms *Hypothesis 4* and it implies that gender discrimination persists in society in general but that it is overcome by family ties, which may help to eliminate prejudice and stereotypes. It is probably easier to achieve a positive work-life balance in family firms (Mateos et al. 2006). Consequently, promoting this type of firm can improve the number of women engaged in senior management. The results also indicate that the logarithm of total assets (SIZE) has a negative impact on gender equality. This evidence reinforces the notion that small and family firms are more likely to appoint women to their boards of directors. The logarithm of the number of directors has a positive impact on the women presence on the board. It is logical that larger boards are more likely to include women. Finally, the age of the firm (AGE) does not seem to be a determinant of women's presence.

Table 3. Logit Panel Data Regression relating to the determinants of the presence of women on the board of SMEs

<i>Variable</i>	<i>Standard Error</i>	<i>Coefficient</i>
Constant	1.898	-11.264***
ROA	0.003	0.001
OPERATIONAL RISK	0.070	0.014
DEBT	0.361	-0.936**
INDIVIDUAL	0.592	1.158*
NONFINANCIAL	0.574	-1.219**
SIZE	0.067	-0.358***
LNUMBER OF DIRECTORS	0.134	5.138***
AGE	0.188	-0.081
Wald Test	1852.66(13)	
Time χ^2	199.62(5)	
Rep χ^2	1600.56(8)	
$\chi^2=0$	23000(1)	

Notes:

***, **, * denote significance at 1%, 5% and 10% levels, respectively.

The goodness-of-fit tests indicate that the variables included in the model have high explanatory power (see Wald test and Rep χ^2). In addition, Wald tests of the joint significance of the time dummies, Time χ^2 , validate the use of such variables. These results show that the inclusion of these binary variables is important since they model for the impact of changes in the macroeconomic environment.

CONCLUSIONS

This paper examines the impact of the gender composition of boards of directors of Spanish SMEs. Spain can be characterized as a country where the incorporation of women in top management positions has been low, a situation that does not seem to have improved in recent years. The debate on this topic has been intense for two reasons: the passing of the Spain's Unified Good Governance Code (2006) which recommends an increase in the number of women directors until they are a minimum of 40% in 2015 for listed firms and the Gender Equality Act endorsed by the Spanish parliament in 2007.

The effect of women's presence on the board of directors, measured by several variables, on firm performance and the determinants of female presence on the board have been examined, using panel data methodology.

One of the contributions of this study is that it is focused on SMEs when the majority of previous evidence was taken from listed firms. SMEs are more important in terms of number, employment and sales. A second contribution arises from the fact that existing studies have not used panel data to control for potential bias in the estimation procedure.

The proportion of women on the boards of Spanish SMEs is higher than that in Spanish listed firms. This implies that SMEs are more advanced in term of gender equality.

A mix of men and women on the board has a positive effect on firm performance. This result suggests that gender diversity not only advances social equity in Spanish boardrooms but serves to improve the firms'

economic situation. The presence of an individual or a non-financial firm as main shareholder has a positive or negative impact, respectively, on female representation on the board. Consequently, it can be concluded that family firms increase gender equality on their boards.

It was also found that women do not show a preference for working on boards of better performing firms or those with lower levels of operational risk. However, they do prefer to be on the boards of firms with less financial risk. Finally, smaller firms and larger boards have more women as directors.

For future research, it would be interesting to analyse the internal processes that increase the firm performance depending on the composition of the board of directors of Spanish SMEs, identifying the different tasks and contributions that women and men can make.

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**ENTREPRENEURSHIP
&
INNOVATIVENESS**

HOW DO SOCIAL ENTREPRENEURS DEVELOP INTENTIONS TO CREATE A SOCIAL VENTURE?: A CASE STUDY

Aytül Ayşe Özdemir
Anadolu University, Turkey

ABSTRACT

The exploratory study on one social entrepreneur aims to understand the intention formation process of social entrepreneurship. Building on the findings, this paper argues that social entrepreneurs have similar three variables of intentions with traditional entrepreneurs, namely perceptions of feasibility, perceptions of desirability and propensity to act. However, the antecedents of these variables differentiate from the traditional ones. At the preceding stage social sentiments form the entrepreneurial intention. Willpower as an antecedent of propensity to act, support as an antecedent of perceptions of feasibility and opportunity construction as an antecedent of perceptions of desirability are identified in this paper.

Keywords: intentions; entrepreneurial intentions formation; new venture creation; social entrepreneurship

INTRODUCTION

The intentions at the background of the individual are important determinants of the effort and willingness displayed toward behaviour. More the intention toward behaviour is strong; more the performance of that behaviour shall be high. The relation between intention and behaviour emerges in a more distinct and strong manner when the behaviour is planned and aimed at a certain target.

Intentions which form the main motivation behind the entrepreneurship behaviour that is planned and aimed at a certain target are studied in many researches (Krueger, 1993, 2000; Bird, 1988; Katz and Gartner, 1988). Most of these researches have studied the traditional entrepreneurial behaviour which has as main mission to create economic value and have contributed to the establishment of the theory in this field. The aim in this study is to research whether the models demonstrating the correlation between traditional entrepreneurial behaviour and intentions are valid for social entrepreneurship which is one of the most important concepts of the present day. With this purpose, primarily, models explaining the relationship between intention and entrepreneurship shall be elaborated, then the relationship of social entrepreneurship and intentions shall be examined and finally how it is established in a social entrepreneur shall be explained through a case study of this relationship.

INTENTIONS, ENTREPRENEURSHIP BEHAVIOUR AND THE RELATED MODELS

Entrepreneurship is related to the perception, evaluation and utilization of goods and services which wait to be produced (Venkataraman, 1997). Perception of the goods and services which wait to be produced is related to the perception of the entrepreneurial opportunities. Planned and target-driven entrepreneurial behaviour (Krueger and Carsrud, 1993; Bird, 1988; Autio et al., 1997) is influenced by the mental models and information structures, in other words from the cognitive approach which has an effect on the creation of an organization (Bird, 1988; Mitchell et al., 2004; Baron, 2004; Krueger, 1998, 2000). According to the cognitive approach, the mental models of individuals have an effect on what individuals think, say and how they behave (Baron, 2004; Hayes and Allinson, 1994). Cognitive mechanisms have an effect on how we receive, preserve and use information. In this context, intentions too are influenced by mental models. Intention, with a simple definition, is the degree of commitment displayed towards the targeted behaviour (Krueger, 1993:6) and it is not likely that the behaviour

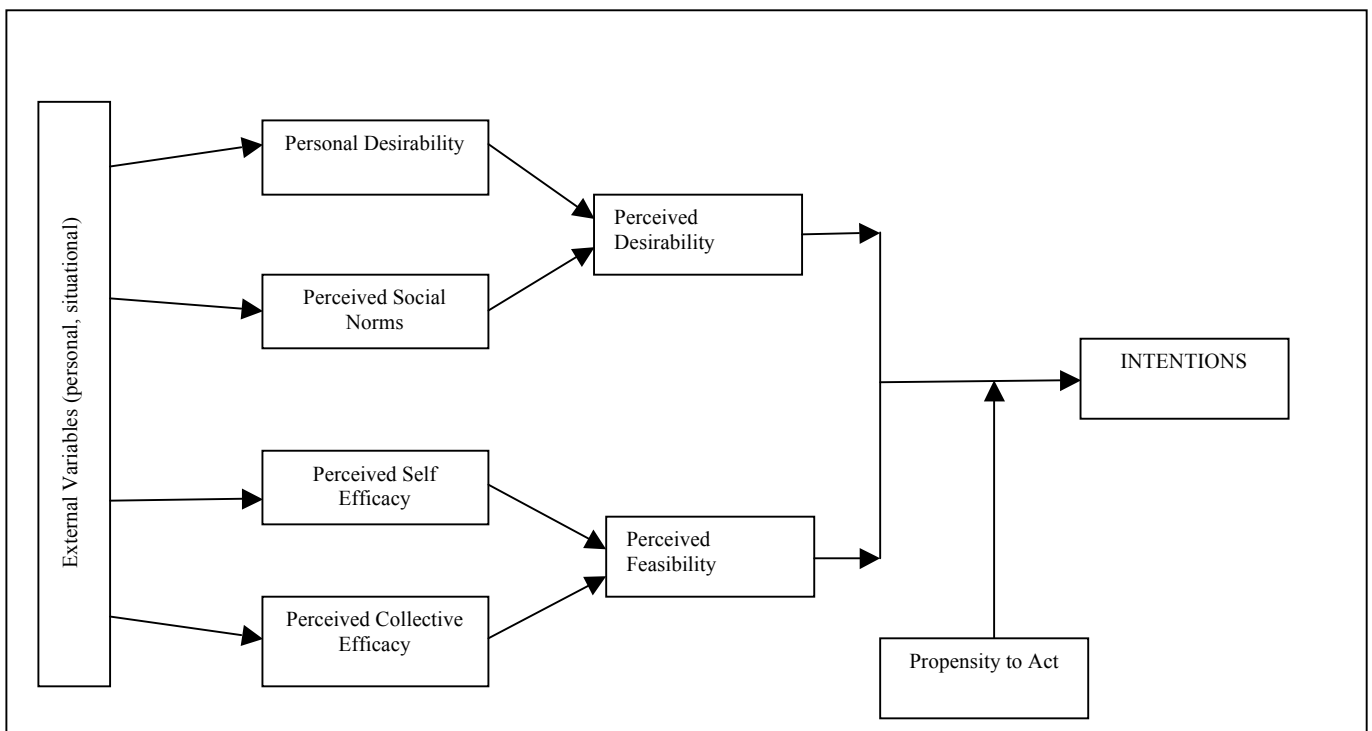
shall appear without an intention. Intentions are needed in perceiving opportunities and in pursuing them; intentions are the cognitive situation which is immediately prior to acting (Krueger, 2003:115).

There are two studies examining intentions and entrepreneurial behaviour that are most cited in the literature pertaining to the field. These are *Planned Behaviour Theory* and *Entrepreneurial Event Model*. According to Ajzen's Planned Behaviour Model the social behaviours of individuals are underneath certain factors, are caused by certain reasons and appear in a planned manner (Erten 2002: 220). Intention related to the behaviour must precede for the occurrence of behaviour. According to this model the intention has three determinants: Attitude related to the behaviour, Special norms and Perception of controlling the behaviour. Attitude related to behaviour is respective to whether the individual perceives the behaviours as an opportunity or threat. People perceive as opportunity when they find that the consequences related to the behaviour are favourable and as threat when they find them to be unfavourable. Special norms are related to the opinions on the behaviour of individuals which are important in the individual's life such as family, close friends, workmates. Perceived behavioural control has an important place in this model, because this perception has a direct effect on both intention as well as behaviour. This perception of ease or difficulty of performing the behaviour is closely related to Bandura's (1982) self-efficacy concept. Self-efficacy which has the meaning of perceived ability to execute the targeted action (Bandura, 1982: 122) has a vital place in the literature concerning entrepreneurial intention (Boyd and Vozikiz, 1994; Chen, Greene and Crick, 1998; Zhao, Seibert and Hills, 2005).

From the intentions-based models, the one related to the entrepreneurial field is the Entrepreneurial Event Model of Shapero which has appeared many years earlier than Ajzen's model. This model argues that people remain in their daily routine lives until an important event disturbing their routines occurs. For instance, especially, negative events such as being laid-off from a job, divorce, job dissatisfaction cause certain changes to occur in people's lives (Summers, 2000:28). While the selection of the events related to the changes depends on the action's perceived desirability, perceived feasibility and the tendency of the individual to perform the action. The entrepreneurial intention, as a type of behaviour and type of action, is formed again by the same determinants: perceived desirability, perceived feasibility and the tendency to perform the action. The perceived desirability is the individual's degree of finding attractive the act of launching a venture. Perceived feasibility is the degree of perception of how much predisposed the person is towards starting a business. Before forming an entrepreneurial intention the individual must both want to found a business and to find it feasible (Summers, 2000:29). In this model, differently from the Ajzen's model, social pressure (social norms) influences intentions through perceived desirability. Furthermore it is also related to the extent of prior entrepreneurial experiences and their being favourable. The extent as well as the favourable results of experiences affect both desirability as well feasibility. Another difference is the propensity to act. Desirability and feasibility are not sufficient to act on a decision (Krueger et al., 2000:418).

Krueger and his associates (2000) have tested the validity of the two models on 97 university students. According to the results of the research, intentions foresee entrepreneurial behaviour which is a planned behaviour. The impact of attitudes on behaviours is through intentions. Attitudes affect intentions, intentions affect entrepreneurial behaviours. Intentions are stronger determinants of entrepreneurship compared to personal variables (such as personality) or situational variables (such as employment situation). While in the results related to models, the subjective norms in Ajzen's model do not foresee the intentions; it has been found that Shapero's model consisting of perceived desirability, perceived feasibility and propensity to act has fully foreseen the intentions. In fact, propensity to act foresees entrepreneurship even while the other variables are kept constant (Krueger et al., 2000:422-423). Based on these two models, Krueger and his associates (2000) have created the intentions model presented in Figure 1. The intentions model which consists essentially of the two models' variables, perceived desirability is formed by personal desirability and perceived social norms. Whereas perceived feasibility consists of self efficacy and the efficacy beliefs of the persons in the environment, for instance in the organization where the individual is working (Krueger, 2000: 10-12).

Figure 1: Intentions Model



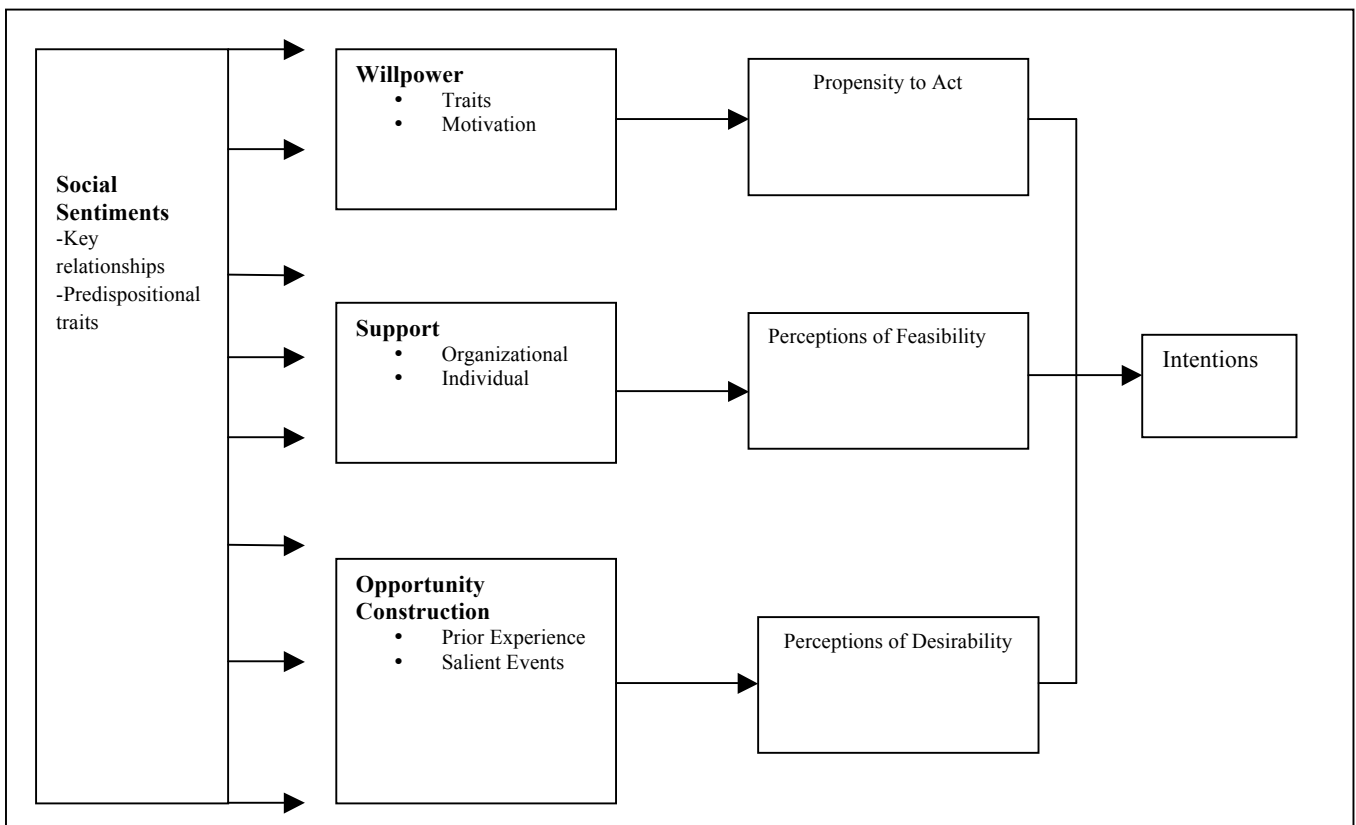
Source: Krueger, N.F. (2000), *The Cognitive Infrastructure of Opportunity Emergence*, *Entrepreneurship Theory and Practice*, Spring, pp. 9.

INTENTIONS AND SOCIAL ENTREPRENEURSHIP BEHAVIOUR

Prabhu (1999) has defined social entrepreneurs as: “People who create and manage innovative entrepreneurial organizations and whose main mission is to create social change and who aim at the development of the groups in their interest area (1999: 140). As it can be seen from this definition in social entrepreneurship *creating social change* is the main purpose. The area where social change shall be created and for which groups it shall be created is related to the perception of opportunities. Just as traditional entrepreneurship is related to perceiving opportunities and mobilizing them, the same characteristic is also valid for social entrepreneurship. The difference here is in relation with the type of opportunities. Social opportunities rather than economic opportunities draw the entrepreneur’s attention. The main criterion in the perception of opportunities is whether it shall meet a social need or not.

When social entrepreneurship behaviour is studied in the framework of the models of Ajzen and Shapero which explains the correlation of entrepreneurial behaviour and intention, the research conducted by Mair and Noboa in 2005 comes across. In the study aimed at educating children in the subject of protecting the environment by using the television and other communication channels that they have conducted with the social entrepreneur Maria Elena Ordonez. Regarding on these studies, it has been found that perceived desirability, perceived feasibility and propensity to act determine also the entrepreneurial intentions in social entrepreneurship just like in the traditional entrepreneurship. However the emergences of these three mechanisms or their development become different in social entrepreneurship (See Figure 2).

Figure 2: Social Entrepreneurship Intentions Model



Source: Mair, J. and Noboa, E. (2005), How Intentions to Create a Social Venture are Formed: A Case Study, IESE Business School, Working Paper Series, WP No:593, University of Narvana, p.7.

When Figure 1 and Figure 2 are analyzed, the differences between traditional and social entrepreneurship models appear in a more distinct manner. Krueger and Brazel (1994) have mentioned the importance of previous experience in the formation of entrepreneurial intention. The quantity and quality of these experiences have an effect on intentions. In the research where they studied Ordonez, Mair and Noboa (2005) have found that social beliefs instead of experiences have an effect on the decision to create a social venture. The feelings which include perceptions, motivation and thoughts are a complex combination of thoughts and feelings. They arise from the relations of the individuals with the events or other individuals and affect the commitment to long term acts. It is indicated that most of the social entrepreneurs have been interested in social matters at young ages. Relations with the individual or events such as having a politically active family or doing volunteer work at nongovernmental organizations; or even traumas experienced at young ages form social feelings and therefore social entrepreneurs (Light, 2005). In the context of social entrepreneurship, it can be said that social feelings transform individuals into citizens who are not pleased with the current situation, who are committed to their values and thoughts and who are motivated to act in the sense of social responsibility. Mair and Noboa (2005) have found that the relationship of Ordonez with nature and her traits such as empathy, ethical judgment form her social feelings.

As it can also be seen from Figure 2, propensity to act is influenced by willpower. Propensity to act is a tendency that motivates an individual who desires to create a venture and feels of capable of succeeding to act. In the example of Ordonez, motivation sources such as creating a social effect, reaching more people, desire for social change and traits related to coming into action form the willpower (Mair and Noboa, 2005:8, 9). As McClelland (1967) has stated that while sources such as “being one’s own boss”, “being independent”, “acquiring financial security” are important, it would not be wrong to expect that these sources shall change in social entrepreneurship. Sources such as discomfort felt from the current situation, altruism may orient social entrepreneurs (Prabhu, 1999: 142). In the research of Shaw and Carter (2007), the existence of distinct differences between traditional entrepreneurship and social entrepreneurship regarding motivation sources come forth. In the U.K. during in-depth interviews conducted with 80 social entrepreneurs, sources such as “creating a

change or difference”, “dispelling local needs”, “being interested in a social matter” and “personal satisfaction” have been encountered as main motivation sources. Different from traditional entrepreneurship it has appeared that sources such as personal demands and needs or joblessness, job dissatisfaction have a much weaker effect (Shaw and Carter, 2007:425). Shortly, motivation and action oriented traits are formed over a long time and are not expected to change within a short period. Motivation as well as traits is necessary for generating willpower. The sole existence of motivation or having solely the necessary traits will not be sufficient to create the willpower to become a social entrepreneur (Mair and Noboa, 2005:10).

Social entrepreneurs evaluate social opportunities according to their conditions of reaching sources necessary to seize the opportunities. In their research, Mair and Noboa (2005) have found that perceived feasibility is affected by the support at individual and organizational level. Social entrepreneurs perceive feasibility only after understanding that they shall be able to reach other resources and manpower (Mair and Noboa, 2005). While in traditional entrepreneurship, self-efficacy and collective efficacy constituted this perception. In social entrepreneurship individual and organizational supports constitute the feasibility perception. The sources of social entrepreneurs are more limited compared to traditional entrepreneurs; their success depends to a great extent on the support they receive (Austin et al, 2006:11). The individuals may utilize social capital in order to reach resources. Social capital is formed by networks established with stakeholders and in the success of entrepreneurship, social capital, is quit important in ensuring confidence and support. In perceiving new opportunities even beyond that information arriving from social networks is much useful. The strong relationship between innovation and social capital is originated from advantages brought by the social capital in accessing information and using information (Özdemir, 2007). Krueger (2000), in his model explaining the relationship between intentions and entrepreneurial behaviour has also defined collective efficiency as social capital (Krueger, 2000). For instance, the support and trust that the individual takes from the other people in the organization have an effect on the entrepreneurship intention. In social entrepreneurship, like in the traditional entrepreneurship, networking behaviours and social network management are important. For instance Shaw and Carter (2007) indicate that social entrepreneurs attach importance to social networks in order to ensure local support to their activities or for their credibility (trustworthiness) in the local environment.

The last variable is perception of opportunities or perceptions of desirability. Opportunities may be looked for or may be discovered. Both require knowledge or experience. An individual may not look for an opportunity about which the individual has no idea or may not discover an opportunity which is not perceived by the mind. In social entrepreneurship, differently from traditional entrepreneurship, the perception of desirability is formed as soon as the opportunity is perceived by the individual. The perception of desirability is not formed after individual preferences or social norms like in the traditional entrepreneurship (Mair and Noboa, 2005:10-11). In social entrepreneurship, unlike traditional entrepreneurship, a possible reason for the social norms losing their effect on entrepreneurial intentions is the fact that the targeted social need in social entrepreneurship is already known by a large segment of the society (Murphy and Coombes, 2009: 333). Poverty, lack of education and famine are social needs that are known and accepted by a large segment of the community and the social entrepreneur is acting in accordance with the social norms on its own.

According to the results of the research of Mair and Noboa (2005), even though we are unable to generalize the results to all social entrepreneurs, perceived desirability, perceived feasibility and propensity to act also foresees the relation between social entrepreneurial behaviour and intention, but the main difference here is the path followed by this network of relationships while it is developing. In other words variables or resources constituting the beliefs may differentiate in social entrepreneurship.

AIM OF THE RESEARCH

The main objective of this research is to analyze the process of entrepreneurial intention formation process of a social entrepreneur. The question of “How social entrepreneurs decide to create a social venture?” is investigated through the related three sub-questions:

- What are the antecedents of propensity to act?
- What are the antecedents of perceptions of feasibility?
- What are the antecedents of perceptions of desirability?

RESEARCH METHOD

The aim of this research is getting a deeper understanding of a complex relationship between intentions formation process and social entrepreneurship behaviour. In order to acquire richer knowledge of a complex situation qualitative approach is chosen. A case study has been conducted in order to display the relation between intentions and social entrepreneurship, to put forth the variables revealing the intention. The reason for choosing this method is related both to the concept of social entrepreneurship which is currently debated as content and to the intention-entrepreneurship relationship being a relatively new subject.

Type of case study research design is instrumental case study. In an instrumental case study, the researcher's primary interest is in understanding something other than the particular case. The researcher chooses the case to develop and/or test a theory or to better understand some important issue (Johnson and Christensen, 2004:377-378). The social entrepreneur who constitutes the analysis unit of this study is Ercan Tural. A very careful selection has been made in deciding who shall be the social entrepreneur analyzed in this study. As the concept of social entrepreneurship is not clear, the social entrepreneurship criteria of Ashoka Foundation (U.S. based non-profit organization that helps social entrepreneurs to develop, share and scale their ideals) which are in line with the definition of social entrepreneurship adopted in this study have been used in selecting the social entrepreneur.

Ercan Tural is the member of Ashoka since 2003. In Germany, he observed for the first time the full and equal participation of disabled persons to social life and started to contemplate on it. Establishing one-to-one relationship with disabled persons, Tural analyzed the related institutions, projects in various countries in Europe and carried his testimonial to Turkey. Carrying out studies for disabled persons to ensure their attachment to life and their social integration, Tural struggles to provide a world without obstacles to disabled persons. Enabling all types of disabled persons to dive, Tural teaches painting to those who are unable to see and to become DJ to those who are unable to hear. Every year, he gives theatre, DJ training, photography, life coaching and music lessons to hundreds of disabled young persons. He has founded Alternative Camp which is a leading and pioneering institution in convenience and accessibility standards which makes possible for disabled persons to participate fully and equally to social life. The participants and volunteers of Alternative Camp which is providing services on a fully voluntary basis to socially disadvantaged groups and individuals since its establishment in 2002, arrive from different countries throughout the world as well as from Turkey. Tural has later founded the Alternative Life Association (AYDER) which produces and implements alternative and innovative projects in order to provide a "social life without obstacles" to those who are kept outside life.

Since 1997 he is giving voluntary diving lessons to disabled persons on a voluntary basis as the "representative and course director for Turkey" of the California based Handicapped Scuba Association which is the first and only diving organization for disabled in the world. He was invited to Dublin in 2003 as Honorary Guest of Special Olympics. He participated to diving workshops in Poland, Germany and Italy. He was one of the Olympic Torch carriers in 2004. Having received the award of "UNDP Good Example in the Field of Youth", Tural has been elected as "social entrepreneur" by the US based ASHOKA Foundation

Data Collection Method and Analysis

In the study, more than one method is used to collect data. Using multiple sources of data is advantageous as it increases the external validity of research. Firstly, in-depth interview has been used as data collection method. In the month of April 2010 an interview lasting 1-1.5 hours has been conducted in Istanbul. Semi-structured interview form was used to receive a detailed explanation. Subsequent to the interview, another interview held with the disabled persons receiving training at the Dreams Academy, the music group with which these disabled persons shall give a concert was participated to as listener by the author. Also the results of document analysis (previous interviews published on internet) were combined with the data. Descriptive analysis was used. To maintain the reliability and validity of the research, the findings of the study was sent to the participant (Ercan Tural) and received his thoughts. Main and sub-questions of the research provide a framework to analyze data.

Findings

As it has been indicated in the result of Mair and Noboa's research (2005) social sentiments, in other words the strong tie with an object or person affects the perception of variables forming the intention of social

entrepreneurship. While in traditional entrepreneurship, the entrepreneurship experiences affect the feasibility and desirability perceptions of entrepreneurial behaviour, in social entrepreneurship; social sentiments take the place of these experiences. Relations with the individual or event such as having a politically active family or working at a nongovernmental organization; even traumas experienced at earlier ages constitute social sentiments and therefore social entrepreneurs (Light 2005). In this research too, it has emerged that the social sentiments of Tural are closely affecting perceptions related to his social entrepreneurship behaviours. But here, differently from the research of Mair and Noboa (2005), it was found that the social sentiments arising from a relation to certain event or person have been formed by the upbringing, culture and values conveyed by culture.

These social sentiments render social entrepreneurs uncomfortable with the current situation and make them feel responsible about it. In addition to social sentiments there are certain traits that guide the individual to take care of the needs of other people. Ultimately even in the case of two persons growing up in the same family, same culture, their approaches to social issues are different. Since traits step in at that point. As a result, social sentiments are primarily effective in the emergence of social entrepreneurship behaviour. These social sentiments consist of both external factors (upbringing style, culture) as well as internal factors (individual traits):

“My becoming a social entrepreneur is related to my conception of the world; you need a philosophical ground to transform your intellectual accumulation into an activity. You have to have a different standpoint than the normal citizen on the street you have to know how to transform knowledge into action. Sensitivity-Awareness-Consciousness motivates you. Your biggest advantage is your awareness of all the circumstances in the world. Famine, civil war, children, disabled, those with AIDS are not mere children for you. You are aware of the systems managing the world, there are obvious issues. Our youth has passed by pursuing the issues of South America, Alaska worker issues, Vietnam. We have not contented ourselves with intellectual chatter by wondering what shall become of the world, after remaining helpless and falling into depression”.

“We are a lucky generation, my childhood passed by arranging contests about who will carry how many bags of elderly people in the neighbourhood bazaar. We grew up with the values of neighbourhood and respect. We grew up with the values of being useful. I thought of becoming a pilot like my father, I know that it was not possible, I always had dreams of becoming a doctor and joining the Red Cross. Our upbringing was different. We were a conscious generation. We took interest in the issues of the country; we did not experience the identity issue that the youth now is experiencing. We knew what we wanted to do, instead of buying a Cadillac we always had fantasies directed to the community.”

“Literature, the books you read, a line of poetry, mythological tales, a movie have an influence on your vision of the world our approach to issues....”.

These statements indicate that upbringing style and the cultural values individual grew up have shaped the social sentiments. The statements of Ercan Tural also signal the significant role of intellectual capital. Intellectual accumulation supports the perception of world and/or social problems.

The other factor of social sentiments is traits. In this research predispositional traits emergence as empathy and feelings of responsibility:

“In our country, unfortunately, there are at present job advertisements written as “we are looking for presentable disabled people....”. “On the street people do not want to encounter with them, try to ignore them....”.

“According to the official statistics, 1 person out of 7 is disabled. There is a bleeding wound somewhere in our life process. They say that fire burns wherever it falls. An enlightened conscience, does not wait for burning, he does not turn his back to the fire outside; instead, he formulates solutions and applies these solutions...” (Source: DT Business Review, January-February 2010, p.139).

“I knew the difficulties before I returned to Turkey. Economic and cultural qualifications of Turkey constitute barriers on your projects. But when I was in Germany and in other countries, I saw that it is possible to implement my project. I had to find a true and a valid vehicle to begin...the years of inaction, the years of accrued problems cannot be solved through classical methods, but it can be diving... extreme, expensive, inaccessible, a real fictional...I felt that I would break down the existing taboos with the approach ‘Sports for Social Change’. Hence, I started offering diving courses free of charge to the disabled, based on the slogan ‘Diving is Freedom’.

“The world underwater is truly a world beyond borders. It offers an environment where you are not dependent on a person, an instrument, or an object. It is a world of liberty and equality. A world where dependence on the wheel chair to which one is tied from birth or later in life, the crutches or a white stick, is no longer in question...” (Source: DT Business Review, January-February 2010, p.140).

As it can be seen from the statements, his own capacity to experience empathy and responsibility feeling helped him to combine diving and the disabled people in an innovative manner.

Antecedents of Propensity to Act

In the research of Mair and Noboa (2005) the propensity to act is influenced by the willpower. In the example of Ordonez, motivation sources such as creating a social effect, reaching more people, desire of social change and traits related getting into action constitute the willpower (Mair and Noboa, 2005: 8). In this research too, the strong relationship between willpower and propensity to act has drawn attention. The motivation sources affecting willpower are the following:

Reaching More People: “This perception must reach everyone throughout Turkey...”. “Instead of joining an institution and working for the disabled people, I have things to say in Mardin, in Istanbul”.

Desire for Social Transformation: “Social transformation cannot be made otherwise, you are making a revolution...”. “There are people who have their lives changed thanks to me”. “..... for a small figure you are may be creating a welfare of 60 billion on the other side of the scale.....”.

Creating Social Effect: “Something must be done not only for yourself, but for other people’s happiness, several people are unaware of this.” “It is very easy for you to satisfy your personal needs, routine holidays may give personal pleasure but your next-door neighbour, someone in the neighbourhood may need you. There are lots of persons who are war victims, who die of famine, personal dreams seem too weak to me”.

Whereas traditional entrepreneurs have economical or self-oriented motivation sources, social entrepreneurs have a desire to create a social effect or to create a social value. They are social-oriented motivation sources instead of economical ones.

The traits facilitating to get into action and forming the willpower are as follows:

“I don’t begin something that I don’t believe at all, I have confidence in myself, while thinking about this project, I never thought that I would be unsuccessful”.

“When I started this project they sent me away from the physical rehabilitation centre, it is a very devious path, you have to fight to solve clashes”. “I had tried diving only two or three times when I was a student as an amateur, when I started this work I learned diving only to eliminate negative reactions, I became diving instructor, currently I am one of the 16 instructors in the world who teach diving to disabled persons”.

“I like taking risks; I am very tough and patient. Developing and pursuing projects uninterruptedly for 11 years requires personal toughness. If I have planned something, I carry it out without fail, nothing is unsolvable. I solve problems, I never give up, I act flexibly according to the needs of the period”. “.. enthusiasm, passion, courage are necessary for this work...”.

According to the Big-Five Factor theory of personality, it can be concluded that emotional stability, openness to experience and conscientiousness facilitate to get into action and help the individual transform his vision into real.

Antecedents of Perceptions of Feasibility

The second determinant forming the intention of social entrepreneurship behaviour is the perception of feasibility. In the traditional entrepreneurship, self-efficacy and collective efficacy formed this perception. Whereas in social entrepreneurship, individual and organizational supports constitute the feasibility perception

(Mair and Noboa, 2005: 9). In this research, among the individual supports especially family and close friends form the support network:

“My family has been very supportive, you work 365 days, day and night week-ends included. When one takes a decision, it brings also the accumulation of a lifetime. You create value; you have to think about them while you take decisions. My family members are my secret heroes. I live with my family, I don’t pay rent, my friends pay my cellular phone or my credit card; they believed in my ideals, encouraged and supported me, thanks to them I had the chance to act freely, my family is my refuge...”

But when the issue is to perceive the organizational support, the participant faced with the low level of social capital of Turkish society. According to the interview made by Ayşenur Afyon (May 2008) he pointed out that:

“All the doors I knocked were closed to my face. There was no information, data, source or respondent on the official channels. There are no associations or organizations want to break his comfort. Rehabilitation centers or academics were not accustomed to anyone except them create solutions. I always have to come back from these doors. Again and again.” (Source: http://www.dezavantaj.org/index.php?option=com_content&view=article&id=41:alternatif-yaam-dernei-kurucu-bakan-ercan-tatal-roeportaj-&catid=15:roeportaj).

“In spite of the barriers of economic difficulties, resistances and oppositions, in 2002, with the support of a few business men, the first Alternative Camp was opened in Bodrum.”

The participant believes that social entrepreneurs are the leaders who are a few steps ahead from ordinary citizens. They are alone and must create their innovative solutions:

“I had to draw my own roadmap...And so far at the beginning I realized that I had to take steps which I believe in myself and able to keep on taking steps when I will stay alone. I am still doing like that. I visited associations, municipal corporations, and rehabilitation centers and when no one attempted to make collaboration and working together, I had to form my own association.”

“Very pragmatist... includes no creativity, no vision, no strategic aim and etc. It is an assumption builds on taking guarantee. A civil servant or a manager may give importance to the support he assumes to take when make a decision... When you understand that you can take the support you need, you take the road and 2 weeks later the supporter decides to give up... What will happen? In fact this also happened...keep going to happen. I can give several examples. The idea social entrepreneur asserts, the steps he/she want to take are also exceeding the capacity of individuals and organizations. If your personal advancement is not ready to be alone for some time, the car you get in always runs idle and cannot go a step further.”

The most important thing in this case, the participant knows the vital role of being sustainable in social entrepreneurship. To gain an institutional structure, he analyzed the stakeholders and built his network according to his projects or activities.

“It is very important to foresee that your project is feasible, it exists in developed countries, I thought that it would be too complicated in our country. It cannot be solved with classical methods; Turkey has socio-economic conditions of its own...” “Your project must be turned into a corporate structure, it is very important for sustainability to have a strategic plan and a corporate roof...” “Continuously renewed needs require that you are dynamic...” “Instead of purchasing service we have developed a finance model where you produce service, the largest obstacle in the budget consists of personnel expenses. It forms 60% of the budget, as our staff works on a voluntary basis we have thus settled the 60%, while in the remaining 40%, local power and resources have been used. We analyzed local dynamics. Instead of using the private sector as a temporary sponsor, we have made it an active part of the project. They have initially seen it as a social responsibility activity, but later, as they believed in the project, they became participant to the project. We included the local actors of the area to which the project activities are related. The Neighbourhood chiefs, District health Institutions, Municipality, District Governor, Provincial Governorship, Police Forces, in Dreams Academy UNDP and State Planning Organization have helped to make the project feasible”.

In this study, different from the study of Mair and Noboa (2005), but similar to the study of Krueger (2000) , it was observed that self- efficacy affects the perception of feasibility:

“Even if I had received no support, if everyone were against me, I would still be doing the same work...”. “you first ask whether he or she can do sports, then whether he or she can dive in Turkey, do paragliding, join the federation, the Olympic games and thus create projects aimed at your target. You ask tens of questions to yourself, here accumulation of knowledge –experience is very important...”. “It can be done, because I can find clever methods, because I exist”.

Antecedents of Perceptions of Desirability

In social entrepreneurship, differently from the traditional entrepreneurship, the desirability perception is created as soon as the opportunity is perceived by the individual. The perception of desirability does not occur after personal preferences or social norms as in the traditional entrepreneurship (Mair and Noboa, 2005: 10-11). In social entrepreneurship, differently from traditional entrepreneurship, a possible reason for the social norms to lose the effect they have on the entrepreneurship is that the social need targeted in the social entrepreneurship is already known and shared by a large segment of the society (Murphy and Coombes, 2009: 333).

In this study too, it has been determined that social norms do not have any effect on desirability. Like in the study of Mair and Noboa (2005) the individuals choosing a career as soon as the entrepreneurship opportunity is perceived and having an experience enabling to perceive the opportunity constitute the entrepreneurial intention. As soon as the opportunity is perceived, a selection is made regarding the individual’s life or career:

“I was not thinking about returning to Turkey, I had other plans, but suddenly a target or mission to change my whole life was the case. I said I shall go and fight with my own methods until the issues related to disabled persons shall be solved in Turkey and I chose my way. The meaning of life changes in the lives of people at certain periods, you set new goals”.

In setting this goal or Tatal’s undertaking such a mission, some events or experiences have been effective. Tatal’s going to Germany for a second University education and seeing how active disabled people were there in every area of life have formed the basis of his social entrepreneurship intention. Being in Germany and receiving a University education where he could learn various languages enabled him to travel to different countries, to follow developments related to disabled persons throughout the world and to create the perception of desirability related to entrepreneurial behaviour. He stated that:

“A sterile environment existed in Germany, the social service system is very strong, the infrastructure is very sound, all citizens are active, as an individual you have quality living time left, the rights are very clear...”. “I have made researches, I have seen that it is feasible in Europe, I thought that it would not be too complicate to implement my idea after all...”

One of the most interesting finding of this study which is also parallel to Mair and Noboa’s (2005) finding is individual consequences of entrepreneurial behaviour is not a valid antecedent in social entrepreneurship intention. Traditional entrepreneurship literature points out that perception of desirability is the result of evaluating the effects of entrepreneurship positive or negative (Krueger, 1993, 2000). Social entrepreneurs do not think or evaluate their gains or losses at the end of the entrepreneurial behaviour. They are social mission driven and personal needs or desires are not their main concern. In one of the participant’s interview with Ayşenur Afyon (May, 2008), he stated that:

“There is no place for personal expectations of the people who are the initiatory of the social change. Because the real happiness for them is to expand the numbers of people they walk together in their joint journey.” (Source: http://www.dezavantaj.org/index.php?option=com_content&view=article&id=41:alternatif-yaam-dernei-kurucu-bakan-ercan-tatal-roeportaj-&catid=15:roeportaj).

CONCLUSION

The case study of Ercan Tatal reveals that like traditional ones, social entrepreneurs’ deciding to create a venture is subject to intentions. Propensity to act, perceptions of feasibility and perceptions of desirability are three variables of intentions. However, the findings of this paper suggest that the path through which these variables develop may differ.

First, prior researches point out that quality and quantity of prior entrepreneurial experiences affect the decision of entrepreneurship creation (Kruger, 1993, 2000). On the other hand, Mair and Noboa (2005) implied that social sentiments, regardless of prior entrepreneurial experience, direct social entrepreneurs to social issues. In this study, parallel to Mair and Noboa's study (2005), social sentiments influence the decision to create a social venture. Mair and Noboa (2005) revealed social sentiments originate from a key relationship with someone or something, and predispositional traits as empathy and moral judgement. This study signals culture and values form the social sentiments of social entrepreneur. This differentiation may be explained from the perspective of Turkish collectivist culture. Turkey has a relatively collectivist culture (Trompenaars and Hampden-Tuner, 1998; Kabasakal and Bodur, 1998) where values and family relationships play a vital role on the identity and worldview of individuals. Besides close relationships, empathy and feelings of responsibility are the traits that form social sentiments.

Second, previous studies signal that traditional entrepreneurs desire to create a venture after evaluating personal expectations and social norms. This study has similar findings with Mair and Noboa's study (2005), which means that when entrepreneurs recognize an opportunity, they constitute a desire to launch the opportunity.

Third, according to the entrepreneurship literature, perceptions of feasibility originate from self-efficacy and collective efficacy. Mair and Noboa (2005) points out after securing individual and organizational support, social entrepreneurs perceive the entrepreneurial behaviour as feasible. On the contrary, in this case, the participant tried to build relationship with organizations, but unfortunately, he cannot be able to get the support. Regardless of organizational support, individual support from family and close friends helped the participant to perceive the entrepreneurial behaviour as feasible. This finding may be linked to Turkish culture again. Turkey is identified as "society with low synergy, with many in-groups and intergroup conflicts". Ingroups, consist of primary relationships, tend to keep and maintain relationships within their closed networks and tend to see the others as strangers (Sargut, 2001). These qualifications are the barriers for generalized trust and high social capital in society. According to the study of 600 academics from different universities in Turkey has revealed that generalized trust is so low (10 %) and social capital profile of academics indicates closed, small network among academics (Özdemir, 2007).

Fourth, the finding of this study suggests that action-oriented traits and motivation originate willpower which manifests itself in propensity to act. Motivation sources are totally different from traditional entrepreneurs. Instead of "being independent", or "financial gains", social entrepreneurs are social mission driven. Risk taking, being patient and strong, being contentious are the salient action oriented traits encountered in this case.

To sum up, it is possible to argue that social entrepreneurship places in a different context of entrepreneurship literature. More related case studies enable the researchers to discuss more robust theory.

LIMITATIONS OF THE STUDY

The salient limitation of this study is obviously to focus on one social entrepreneur. Generalization of the findings is not suitable. Another limitation is the events Tural (the participant) referred occurred some years ago. However, multiple sources of data collection (from prior interviews on the internet and from one actual interview about a current activity of the social entrepreneurship project) can ensure the reliability and validity of the study.

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LEARNING, ENTREPRENEURSHIP AND INNOVATION ORIENTATIONS IN TURKISH FAMILY-OWNED FIRMS

Cemal ZEHİR & Erkut ALTINDAG

Gebze Institute of Technology

A.Zafer ACAR

Okan University

ABSTRACT

Globalization is forcing family-owned companies need to be more flexible and faster organization structures to respond effectively to the customers' growing various types needs on the certain line of producing high quality goods and services these days. With the start of a new paradigm era in strategic management field, family-owned firms began to choose different tools to maximize their sustainable performance against rivals. These tools include special strategic orientations including learning, entrepreneurship and innovation implications. Our study tries to explore the effects of strategic orientations implications into firm performance and their effects on growth and financial performance in Turkish family-owned companies.

Key Words: *Strategic orientations, family owned firms, firm performance, empirical study*

INTRODUCTION

Strategic management is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is a level of managerial activity under setting goals and over tactics including some special tools like strategic orientations. These orientations involve both strategy formation called content and also strategy implementation called process (David, 1989; Chaffee, 1985). During the last decades, strategic orientations in family owned firms have received increased attention among scholars. The heart of the strategic management process is to achieve the performance outcomes that allow firms, including family-influenced firms, to be competitive over time (Habbershon, et al., 2003; Pieper & Klein, 2007). Family businesses significantly affect to economy and the social life of a nation. The typical family business has been characterized as an organizational controlled and usually managed by multiple family members In general, management structure in the family business will determined by the top level manager. Usually at least two generations of family are found in corporate governance. In the definition of the family company; spouse, siblings, mother / father and child may enter the partnership of the management board or support the capital as a shareholder (Shanker & Astrachan 1996; Lunsber 1999). Recent researches indicates that companies achieve their aims easily which are in family firm structure. Family firms often have concentrated ownership and / or voting rights that might enhance performance (Miller et.al., 2007). Family businesses may offer particularly appealing circumstances for studying certain kinds of organizational phenomena (Chrisman et al., 2003). The aim of this article is to develop a model of family business that accounts for the unique characteristics of family business, specify the diversity of orientation forms, and addresses the dynamics among family-owned business firm performance. It is hoped that this special research will contribute to filling this gap.

LITERATURE REVIEW

Family-Owned Firms

The literature on family business is wide-ranging and it is difficult to find consensus on the exact definition of a family firm. However, the typical family business has been characterized as an organization controlled and usually managed by multiple family members (Shanker & Astrachan, 1996; Lansberg, 1999), often from multiple generations (Anderson & Reeb, 2003; Gomez-Mejia et al., in press). Family firms can be viewed as a contextual hybrid—a unique combination of two sets of rules, values, and expectations: the family's and the business's (Flemons & Cole, 1992; Gersick et al, 1997;). Family firms share certain characteristics that render

them unique in terms of patterns of ownership, governance, and succession (Chrisman *et al* 1999; Steier, 2003). A family business is a business in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business' overall well-being. In some countries, many of the largest publicly listed firms are family-owned. A firm is said to be family-owned if a person is the controlling shareholder; that is, a person (rather than a state, corporation, management trust, or mutual fund) can garner enough shares to assure at least 20% of the voting rights and the highest percentage of voting rights in comparison to other shareholders (Chakrabarty, 2009).

For instance, owner-families share the desire for ownership control and the continuity of family involvement in the firm. To fully appreciate these special characteristics, it is crucial to focus on family firms where the family is likely to have considerable impact on entrepreneurial activities. We therefore define family firms as firms where one family group controls the company through a clear majority of the ordinary voting shares, the family is represented on the management team, and the leading representative of the family perceives the business to be a family firm (Naldi, *et.al.*, 2007). Most of the research projects studying goals in family firms compare the goals of these types of firms to those of non-family firms in order to detect significant differences. Results in relation to this subject are mixed. In family firms, goals related to family roles tend to be far more important than the traditional firm-value maximization goal (Sharma *et al.*, 1997). Among those important family roles are survival, financial independence, family harmony and family employment (Trostel & Nichols, 1982; Donckels & Frolich, 1991; Westhead, 1997). Moreover, family firms are described as being more risk-averse and less growth-oriented. They focus less on technology, creativity and innovation (Donckels & Frölich, 1991). However, most of the family firm managers believe that they are operating in a hostile external environment (Westhead, 1997).

In the literature and organizational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share, etc. All organizations can innovate, including for example hospitals, universities, and local governments. A convenient definition of innovation from an organizational perspective is given by Luecke and Katz (2003), who wrote: "Innovation is generally understood as the successful introduction of a new thing or method; innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services." Discussion of the innovation philosophy generally refers to issues such as new products, technology, and discontinuous improvement, while discussion of the marketing philosophy generally concerns matters such as customer service, customer satisfaction and customer focus. The tendency to see these philosophies as mutually exclusive is reinforced by the specialization of academics and consultants in one or the other area. Some scholars, however, have paid attention to the need to integrate technology and market (Berthon *et al*, 2004).

An innovation-oriented knowledge structure is a set of organization-wide shared beliefs and understandings that guide and direct "all organizational strategies and actions, including those embedded in the formal and informal systems, behaviors, competencies, and processes of the firm" (Simpson *et al.*, 2006). Most prior innovation research has focused on factors that affect innovations, primarily rate, speed and benefits. More recent research has examined innovation as a system-based, firm-wide orientation toward innovation. Along with this broader perspective comes a need for understanding outcomes of the orientation, both positive and negative. The innovation literature to date has largely relied on a handful of specific, readily calculated outcomes of innovation, with few studies examining the link between a more comprehensive innovation orientation and its organizational effects (Totterdell *et al.*, 2002). Though no known studies have empirically examined innovation orientation effects on consumers, Schlegelmilch *et al.* (2003) make a compelling argument that a strategic innovation will yield 'proactive value creation' and Totterdell *et al.* (2002) find a relationship between novelty and greater perceived benefits to customers.

With another orientation entrepreneurial activities in family firms do involve taking risks, but to a lesser extent than in non-family firms. If family firms generally are characterized by less internal and external formal monitoring, risk taking in family firms is likely to mean that these family firms make decision that are less bias on closely calculated risks; less grounded in a systematic, unbiased way; and with less incorporation of outsiders' perspectives and opinions (Schulze *et al*, 2001; Naldi *et al*, 2007). In many global markets, speed of technological change is rapid. Especially family firm-based companies have to adopt this turbulent environment as an organic organization. Innovation-oriented firm focuses on developing key organizational competencies in resource allocation, technology, employees, operations and markets. Most prior innovation research has focused on factors that affect innovations, primarily rate, speed and benefits (Simpson, *et al.*, 2006).

Organizations that are competent learners are called "learning organizations". Garvin (1993) defined a learning organization as "an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its

behavior to reflect new knowledge and insights". Most scholars' view organizational learning as a process, a cognitive enterprise, that unfolds over time, but they differ on other important matters. Some believe that behavioral change is required for learning others insist that new ways of thinking are enough Learning organization, an organization's implicit or explicit understanding of how things are done is often referred to as its theory in use. Organizational learning occurs when members of the organization act as learning agents for the organization, responding to changes in the internal and external environments of the organization by detecting and correcting errors in organizational theory in use, and embedding the results of their inquiry in private images and shared maps of organization. There has been a new perspective for significantly increasing organizational learning by providing a greater understanding of related and required concepts of change, learning, collaborative work systems, teams, synergy and authentic teams, co-mentoring relationships and learning teams, and their implementation in organizations. Learning orientation has four sub-dimensions in own structure. Team orientation is about the group members and their success as working together. All members should complement each other and must serve the same purpose. System orientation means all departments and employees create an effective system with the high level of rationalizing. Learning sub-dimension shows the degree of adapting to new circumstances and reaching success. At last, shared memory is the key element of organizational culture. All employees have a common history and their values are similar. These all sub-dimensions are about the increasing of firm efficiency when to be quickly adapted to the environment is necessary. Having the knowledge to better link resources to customer needs and increasing the pace of change within the organization (Pedler et al., 1997; Baker *et al*, 2007).

Each strategic orientation has various effects on growth and profitability performance in family based businesses. In various studies, the positive way strong relationships were found between the active return rate, growth in sales, new product success, increasing market share and profitability performance indicators (Narver & Slater, 1990). In this research, family business' financial and growth performance are tried to analyze by managers or chiefs' perspectives. Firm performance is connected to effective use of performance measures in the family firm.

METHOD

Conceptual Framework

The purpose of this empirical study is to evaluate the effects of strategic orientations levels on firm performance in family firms. In this connection, the hypothesis which we use in our study is improved by scientific literature and created a model that explains the causes of orientations over firm's qualitative and quantitative performance. If the family owned firms restructure their organizations with strategic orientations; firms have the potential to gain superior financial and growth performance. We expect a direct relationship between strategic orientations and firm's performance; with support of the modern literature, these hypotheses are expanded :

H1: There is a positive, significant and direct relationship between innovation orientation and business performance

H2: There is a positive, significant and direct relationship between entrepreneurship orientation and business performance

H3: There is a positive, significant and direct relationship between learning orientation and business performance

Sampling and Data Collecting

The aim of this study is to provide an explanation for the contradictory evidence in the literature regarding the performance of Turkish family-owned firms. For this purpose, it's evaluated the effects of strategic orientations levels on firm performance in family firms. In order to empirically investigate the hypothesis of the study, family based firms are chosen in Istanbul area. To collect the data some tools as e-mail, letter and face to face interviews are used. Minimum two members from each firm was claimed to participate the research survey. Total of 280 questionnaires have returned among over 130 firms. The descriptive statistics of the respondents are shown in Table 1. All items were measured on a seven point Likert-type scale where 1= strongly disagree and 7= strongly agree. Data is evaluated by SPSS 16.0 statistical program. The relationships between the all variables are tested using factor, reliability, correlation and regression analyses.

Table-1: Descriptive Statistics of the Sample

Gender	Frequency	Percent	Hierarchical Status	Frequency	Percent
Male	210	75	Top Level Man. / Owner	38	13,6
Female	70	25	Middle Level Man.	96	34,3
Total	280	100	Bottom Level Manager	146	52,1
			Total	280	100
Education	Frequency	Percent	Tenure	Frequency	Percent
Primary School	7	2,5	1-5 years	177	63,2
High School	39	13,9	6-10 years	70	25
Vocational School	19	6,8	11-20 years	27	9,6
Graduate	144	51,4	20+ years	6	2,1
Master / PhD	71	25,3			

Measures

All constructs were measured with existed scales from previous literature. The first of these scales is the entrepreneurship orientation. This instrument designed by Li *et al.* (2007), was used to measure the construct of entrepreneurship orientation level of the firms. Second one is innovation orientation. This instrument is modified by Hurley & Hult (2004) and Gatignon & Xuereb (1997). The other scale is learning orientation used by Hult *et al* in 2003. At last, firm's performance scales in the questionnaire are taken from recent management studies (Baker & Sinkula, 1999; Lynch *et al*, 2000; Zahra *et al.*, 2002). These items were measured on a seven point Likert-type scale where 1= strongly disagree and 7= strongly agree. All questions are tested for linguistic and meaning errors and it's controlled by Brislin's (1970) back-translate method for the translation of questionnaires.

Scale Validity and Reliability

In our study, all items and components are tested by comprehensive reliability analyses. As a beginning, it's analyzed the alpha reliability test (Croanbach); all the scale reliability coefficient has been determined a satisfactory level such that $\alpha = ,953$; this value is quite over the recommended 0.70 threshold (Nunnally 1978; Nunnally, and Bernstein 1994). The variables those exist in the scale are tested individually; some items are removed before the analyses process (e5 from entrepreneurship orientation, i7, i9 and i10 from innovation orientation, p3 and p9 from performance). Later on this process, the cumulative reliability coefficient value increased to $\alpha = ,964$. This level is higher than the critical threshold value (0.700) that generally accepted in the literature. The scale structure that was obtained with factor analysis was evaluated with the Kolmogorov-Smirnov test, and it was seen that *t* values of all of the variables were at the sufficient level for our sample that prove that the distribution of the data is statistically normal. At next step, it's examined the "corrected inter-item correlations" and "squared multiple correlations" in the item analysis stage. It was found that, except two items all of the resulting values were 0.500 and above. In pursuit of reliability and correlation analyze, it is determined the factor structures by basic component analyze. During this process, Entrepreneurship and innovation orientations constituted only one component. Learning orientation disintegrated as four components (team orientation, system orientation, learning orientation and shared memory orientation).

Table-2: Factor Analyses

Variables	Number of components	α	Total Explained Variance
Entrepreneurship Orientation	1	0,864	% 71,301
Innovation Orientation	1	0,910	% 65,696
Learning Orientation	4	0,967	% 81,779
Business Performance	2	0,930	% 73,219

Test of the Research Questions

After testing reliability and the factorial structure, correlation analysis of the research questions was begun with the purpose of examining the mutual relationship among the factors considered in our research model. It was determined that the four independent latent variables had mutually positive relationships ($\rho < 0.001$) with each other and with business performance components (see Table 3).

Table -3: Correlation Matrix

	Mean	St.D.	1	2	3	4	5	6	7	8
Entrepreneur	4,823	1,483	1,000							
Innovation	5,157	1,328	,756**	1,000						
Team	5,248	1,546	,394**	,418**	1,000					
System	5,471	1,313	,421**	,483**	,718**	1,000				
Learning	5,306	1,462	,347**	,332**	,693**	,687**	1,000			
Shared Memo.	5,008	1,586	,348**	,382**	,759**	,668**	,729**	1,000		
Financial P.	4,563	1,116	,310**	,318**	,082	,102	,026	,015	1,000	
Growth P.	4,598	1,386	,443**	,464**	,144*	,167**	,106	,087	,693**	1,000

$p^* < 0,05$; $p^{**} < 0,01$

As shown on the correlation table, all sub-factors of the learning orientation have not a strength mutual relationship between firm performances. Especially the learning and shared memory sub-factors of the learning orientation have no significant effect on business performance of the firm. The Pearson correlation coefficient indicates the strength of a linear relationship between two variables, but its value generally does not completely characterize their relationship. *Because of this, after reveal of the mutual relations of examining factors in the model, the linear relationship was tested with regression analysis. According to the analyses' results (see Table 4):*

- ✓ *Entrepreneurship* (ρ : 0,182;) *and innovation* (ρ : 0,225) *orientations* directly, positively and significantly affect to the *firm's financial (a) performance*. *So, H1a and H2a hypothesis are supported.* (R^2 : ,130; F :6,768). Consistent with our hypotheses, this construct that includes these orientations is also valid and relevant in the important organizational context of family owned firms.
- ✓ *Entrepreneurship* (ρ : 0,231) *and innovation* (ρ : 0,341) *orientations* directly, positively and significantly affect to the *firm's growth (b) performance*. *H1b and H2b hypothesis are supported.* (R^2 : ,248; F :14,950).
- ✓ *Learning orientation significantly impact reversely on financial and growth performance. This situation is not valuable for our empirical study. Because of these findings, an H3a and H3b hypotheses are not supported.*

Table -4: The Effects of Strategic Orientations on Business Performance

	Model 1			Model 2		
	ρ	t	P	ρ	T	p
Entrepre.	,182	2,080	,038	,231	2,831	,005
Innovation	,225	2,488	,013	,341	4,043	,000
Team	,053	,539	,591	,023	,239	,804
System	,008	,088	,930	-,035	-,411	,682
Learning	-,048	-,527	,598	,014	,166	,868
Shared Memories	-,145	-1,485	,139	-,128	-1,411	,159
	Dependent variable: Financial performance $R^2=,130$ $F=6,768$; $p < 0,001$			Dependent variable: Growth performance $R^2=,248$ $F=14,950$; $p < 0,001$		

Depending to the results given in Table 4, we deduced that both entrepreneurship and innovation orientations have statistically significant direct positive effects on business performance with all dimensions of the firm. ***On the other hand, there is no significant prove of the affects of learning orientation with all sub dimensions on the firm performance. There is no correlation between learning orientations and firm performance. In other words, the raising the values of independent variables in the innovation and entrepreneurship make the firm***

performance increased. There is a linear relationship between the entrepreneurship and performance; innovation and performance. As a further invention, the high correlation between this two independent variables shows that this two orientations using together in the family owned firms. We also support these findings:

- ✓ Although the learning orientation does not affect firm performance, two sub factors of learning orientations have a positive and significant effect on entrepreneurship and innovation orientation. Hence this situation, learning orientation may affect the family-owned firm’s growth and financial performance indirectly. Especially the sub factors named team and system orientation positively and significantly affect the entrepreneurship and innovation orientations which exist in learning orientation’s structure model. These findings also appropriate with the correlation analysis results. recorded as an unexpected discovery in our research (see table 5).

Table -5: The Effects Learning Orientation’s sub factors on Entrepreneurship and Innovation Orientations

Sub Dimensions	Model 3			Model 4		
	β	t	p	β	t	p
Team	,162	2,011	,034	,138	2,488	,013
System	,266	3,136	,002	,392	4,784	,000
Learning	,037	,429	,668	-,095	-1,121	,263
Shared Memories	,020	,217	,828	,085	,941	,347
	Dependent variable: Entrepreneurship Orient. $R^2=,196$; $F=16,701$; $p<0,001$			Dependent variable: Innovation Orient. $R^2=,248$; $F=22,561$; $p<0,001$		

- ✓ With this findings we can assume that employers of all levels (bottom to top) including stakeholders are they key facts for implementing innovation and entrepreneurship orientations. As a sub factor of learning orientation, system orientation is about the connection between all departments inside a firm. It’s related to added value of every employers and strategic business unit; system orientation is closely influenced into the entrepreneurship and innovation orientation. Another sub factor is team orientation explains the system as a firm that enhancing individual growth as well as organizational growth. There is a strong believe to enhance coordination and communications between function departments.

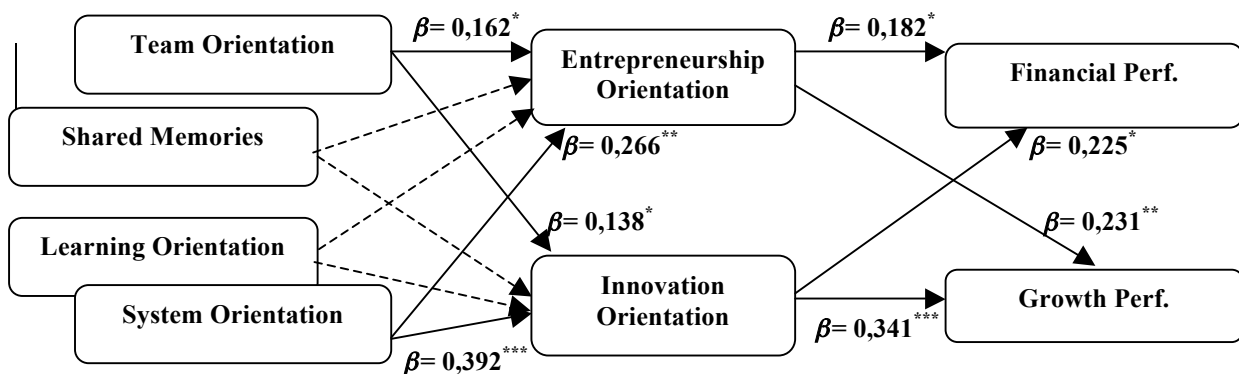


Figure-1: The final model of the research

DISCUSSION

Conclusion

This study focuses on the effect of strategic orientations on the family based firms’ performance. Our research findings provide some valuable notions. The results of our empirical study show that some strategic orientations including innovation and entrepreneurship are implementing by Turkish family firms to achieve sustainable

competitive advantage in turbulent markets. Effects of strategic orientations evolve over time and that it is the implementation of the strategy which is truly important, rather than the classification of the strategic type. It may be possible for other strategic types to improve performance by altering their strategy profiles to be more aggressive, more focused or time-consuming when implementing decisions. In this research, entrepreneurship and innovation orientations are connected to firm's performance's elements as profitability, revenues before taxes, growth rate in the market, employee number, new customers, innovative products or services and financial success. For instance, the success of innovative output affects to firm's competitive advantage in a turbulent market. The organizational learning is a key determinant of manufacturing without errors and low costs. Several managers change their management comprehension for creating a customer focused, market-driven strategies. Our finding shows that the firms which use any strategic orientation are capable to be the better performers in many markets. That's what the reason of some family firms are successful. In the strategic management literature, as well as there are some researches who claim all strategic orientations effect positively on firm performance (Hult vd., 2003; Olson et al., 2004), there are some dissidents (Manu and Sriram, 1996; Noble et al., 2002). Findings show that there is a meaningful and positive relationship between the innovation, entrepreneurship and firm performance. This finding can be evaluated as Turkish family firms follow and integrate the modern management theories and global trends into their structure. These orientations have got same character; the high correlation between these two variables may be the evidence of it. They are both being used for competitive advantages for Turkish family owned firms. The managers emphasize the innovation and entrepreneurship orientations to protect firm's position and possess stronger composition than rivals. Our results suggest that innovation orientation is also shown the faith to new products and services that interests of companies; entrepreneurship orientation leads various abilities including fast fight back and leading the new services and products in the market. The results indicate that the association between strategic orientation and performance varies depending on the type of orientation used. Managers need to be able to assess the orientation of their organizations in this regard, and to consider carefully whether their assessment of the situation was that intended, and whether it is appropriate to the business environment (Berthon, et.al., 2004). our study suggests that an entrepreneurship orientation is beneficial for improvement of new product development activities in a transitional economy; top managers of firms should incline toward choosing entrepreneurship as their main strategic orientation. As a general thing, our results call into question the usefulness of learning orientations. There's no significant finding that these orientations with all dimensions affect to firm's performance. By the way, learning orientations' some sub-dimensions effect the innovation and entrepreneurship orientations and their implications for internal environment of the company and making a definitive system. This is also indirectly affects performance. Once again, our empirical study is an important step in validating the relationship between strategic orientations and firm performance. Also it provides that Turkish family firms are tend to use modern management theories in their structural organization. In the findings in replications of our research support our findings, the message to the family firm managers is clear. In the competitive market, family firms must evaluate their performance and choose a suitable strategic orientation to achieve competitive advantage strategy. It's a new way to achieve to the success for the family owned firms. The using of these orientations helps to increase family-owned business' profitability and growth rate in turbulent markets. This conclusion has implications for managers and management professors. We recommend the following:

- The examined orientations must be used together as a combination of success. Using the innovation and entrepreneurship orientations compatible with each other can be considered as a proof of this.
- It's recommended that to specify the role of learning orientations which don't directly effect on to other orientations to the academicians working on this issue. As a special finding, we found a strong relationship both system and team orientation affect the entrepreneurship and innovation orientation. A model which is designed to evaluate the sub dimensions of learning orientations' effects on other strategic orientations can be useful for future researches.
- The managers can use both the innovation and entrepreneurship orientations to improve efficiency of the family-owned firms. New product success rate, degree of product differentiation, first to market with new applications, sales growth and customer satisfaction are some criterions to reach the firm's vision by using strategic orientations (Lee and Tsai, 2005).
- Family-owned firm managers should examine the other orientations that including customer, relationship and market as a new technique to achieve sustainable performance.

Limitations and future research directions

Our empirical study has several limitations that should be kept in mind. Family firms differ on a range of dimensions and it is possible that different types of family firms show different patterns in terms of all orientations. Our data consisted of Turkish family firms and inference to other countries should be made with caution. National culture and tradition may influence especially entrepreneurship and learning orientation, which

has implications for the generalization of our findings. In contrast, responses from more individuals within the firms would have given a more complete picture of the firm's situation and behavior. Also our contributions to family business research open up possibilities for future researches.

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CAN INNOVATION BE A REASON FOR A LONG TERM SURVIVAL?

Bige Aşkun and Refika Bakoğlu

Marmara University, Turkey

ABSTRACT

The purpose of the present study is to explore the innovative characteristics of firms surviving through the ages by using content analysis of their websites. The article proceeds in the following manner: First, we briefly review the literature. Second, we explore innovative characteristics of firms surviving through the ages by using content analysis method. We will be analyzing all firms that are listed in the www.henokiens.com. Henokiens is an association that accepts firms which are at least 200 years of age. The 41 firms from different nationalities were analyzed by content. The validity and the reliability reports and procedures are given. Finally, we provide the research findings and discuss their managerial and theoretical implications.

Keywords : Innovation, Survival, Firms Surviving through the ages, Innovative characteristics

INTRODUCTION

There are different approaches for explaining survival of firms like industrial economics, organizational ecology and resource based view. In industrial economics perspective; structural factors play vital role such as size and age of a firm, and survival also depends on the outcome of a market selection (Cefis and Marsili, 2005: 1168). Cefis and Marsili (2006) analyzed the effects of innovation on the survival probability of manufacturing firms, conditional on firm attributes such as age and size and sector, and found that innovation matters for increasing the survival probability of firms. The role of market selection is seen vital because of imperfect information presence by Javanovic (1982) and of uncertainty due to research and development efforts by Ericson and Pakes (1995). These two studies also indicate survival probability increases with age and size. Similarly, there are other studies that exhibit positive linkage between firm survival and its size and age (Geroski, 1995; Sutton, 1997; Caves, 1998).

This paper aims to achieve by reviewing the literature then make a research about the concept and types of innovation for analyzing to find that whether innovation be a reason for a long term survival or not.

LITERATURE REVIEW

When overviewing all the studies, survival probability related to age and size means experiences increases the chance of survival over the lifecycle of a firm. In the perspective of industrial economics, firm survival depends also the level of intangible assets and the quality of capital stock. For instance, technological capacity measured by research and development and patent statistics (Hall, 1987), and advanced manufacturing technologies (Doms et al., 1995; Colombo and Delmastro, 2001) have higher chance of survival. The other important determinants of survival at industry level according to the industrial economics are the characteristics of demand, such as market size and growth rates (Mata and Portugal, 1994). These studies clearly observe linkage between innovation and survival in industrial economics perspective.

The studies bringing forward connection between survival and age and size conditionally on age, are also in line with the organizational ecology. Organizational ecology highlights the vital role of organizational strategies, and environmental conditions like the rate of organizational change has effect on organizational strategies (Hannan and Freeman 1997). Separate organizations as specialist and generalist occupying a narrow, the first, and a

broad, the second, niche in their market for being able to survive. According to the organizational ecology perspective survival is more related to the density of the population at the time of founding and throughout the life period of an organization meaning that a firm entering crowded field would have less chance than a firm entering to less competitive area (Carrol and Hannan, 1989; Hannan and Freeman, 1988). Mitchell (1991) stresses the importance of entry timing for firm survival.

Another recent perspective on the firm survival is the resource-based view that emphasizes how firm's stock of tangible and intangible assets including employee's individual skills, and competencies representing firm's collective capacity for undertaking a specific type of activity can develop organizational capabilities and enhance organizational performance. Those working within the "resource based view of the firm" area have been inspired by the work of Selznick (1957) and Penrose (1959), and have suggested that inimitable firm heterogeneity, or the possession of unique "competencies" or "capabilities" may be an important source of strategic advantage (Lippman and Rumelt, 1982; Wernerfelt, 1984; Barney, 1986; Rumelt, 1991; Peteraf, 1993; Amit and Schoemaker, 1993). While resources are the essential building blocks, whether an organization gains a competitive advantage and thereby achieves above-normal returns will be a function of the strategy used to leverage those resources to pursue environmental opportunities (Hofer and Schendel, 1978). For an organizational "competence" to be a source of competitive advantage it must meet three conditions: it must be heterogeneously distributed within an industry, it must be impossible to buy or sell in the available factor markets at less than its true marginal value, and it must be difficult or costly to replicate (Barney, 1986; Wernerfelt, 1986; Peteraf, 1993). Liao, Kickul and Ma (2009) indicate that both the firm's resource stock and integrative capabilities, ability to recognize opportunities as well as to configure and deploy resources, affect its innovation. Additionally, they also found that the relationship between resource stock and innovation is mediated by integrative capabilities. Lieberman and Montgomery (1998) suggested that first mover advantage and resource based view are related conceptual frameworks that can benefit from closer linkage.

According to the resource based view strategies should not be build around external opportunities, but around a company's strengths, on the contrary to the industrial economics approach. Development of difficult to imitate competencies and/or on the acquisition of exclusive assets are the main strategic focus in order to gain sustainable competitive advantage. This unique resource base should be used as the starting point of strategy formation with respect to resource based view, which is the opposite of industrial economics and organizational ecology approaches. In order to the resource based view, markets should subsequently be chosen, adapted or created to exploit these specific strengths, and once a company developed a distinctive ability, it is usually difficult for competitors to imitate, and while rivals try to catch up, a company with an initial lead can try to upgrade its competencies in the race to stay ahead (Collis and Montgomery, 1995; Barney, 1991). As even Porter (1980), being accepted the guru of the industrial economics theory, advocates that a competitive advantage could be sustainable, if it cannot be copied or eroded by the actions of rivals, and is not made redundant by environment developments. As industrial economics and organizational ecology approaches heavily relies on the market dominance and market/industry position, survival of the firm may not step on the solid ground by using these approaches. Just as Hitt, Ireland and Hoskisson asserts that conventional sources of competitive advantage such as economies of scale and huge advertising budgets, are not as effective as they once were (Hitt, Ireland and Hoskisson, 2005). Since after 1990's, resource based view have changed our mindset of competitive advantage, and resource based view takes innovation as a never ending process. We can summarize the differences between industrial economics and organizational ecology approaches, as conventional competitive advantage, and resource based competitive advantage in the table below.

The role of innovation in influencing business performance and survival is widely accepted, but there is only limited evidence identifying any direct relationships between them (Bakoğlu and Aşkun, 2008) as it is indicated above. Although we have tried to make connections among innovation and different perspectives in management studies like industrial economics, organizational ecology and resource based view, we were not able to find as many study as it is expected. Cefis and Marsili (2005, 2006) also asserted that despite the role attributed to innovation in firm survival, there is little empirical evidence on the relationship between probability of survival and the innovative activities carried out within the firm. Similarly, we have found neither theoretical nor empirical study investigating directly the effect of innovation on firm's long lasting survival, and proving that survival of more than one century old firms may depends on their innovation capacity. On the contrary, some studies indicating family businesses are less likely than none family firms to pursue wealth maximization as their dominant objective (Sharma, Chrisman and Chua, 1997; Chrisman, Chua and Zahra, 2003; Sirmon and Hitt, 2003).

Table 1: Novelties on the concept of competitive advantage introduced by the resource based view

	Conventional Competitive Advantage	Resource Based Competitive Advantage
Primary Orientation and Emphasis in Competition	Product, Market, Industry	Resources, Capabilities, Competence, Business Process, Knowledge
Strategic focus	Market/Industry Position Dominance	Developing Resource Base Innovation, Distinctive Resources
Priority in Competition	Gaining Competitive Advantage	Gaining Sustainable Competitive Advantage
Innovation and Creativity	Attaining advantageous position Entering to profitable businesses Building up Mobility Barriers Enhancing Bargaining Power	Attaining distinctive resources, competence development and application for Changing the Rules of the Game Rapid competence development
Perspective in Strategy Formulation	Outside-in/ Strategic Adaptation	Inside-out/ Strategic Stretching
Starting Point	Market/ Industry Structure	Firm's Resource Infrastructure
Competitive Weapons in Business Level Strategy	Bargaining Power and Mobility Barriers	Superior Resources and Imitation Barriers
Main Emphasis on the Corporate Level Strategy	Diverse/unrelated business' portfolio/ Collection of shareholdings for profitability and cash flow allocation	Synergy among highly related businesses/value and synergy creation through shared competence-based (focused)
Approaches Towards Strategic Business Units and Their Coordination	Highly autonomous Loosely Coordinated	Highly Integrated Tightly Coordinated
Assumptions about Environment	Predictible, Slowly Changing	Unknown, Dynamic
Assumptions about Firms	Firms are actors which try to gain opportunities from their environment or/and enable themselves to catch this opportunities by attaining necessary resources.	Firms, and their resources and competencies are heterogeneous. Firms compete based on these distinctive resources.

Source: Bakoğlu, R. (2003) "Kaynak Bazlı Firma Teorisi Kapsamında Değişen Rekabet Avantajı Kavram ve Anlayışı", İ.Ü. İşletme Fakültesi Dergisi, 32(1), 65-76.

Only Koironen's article (2002) discusses firms over 100 years of age may still be active entrepreneurially in business due to their values and family characteristics, when doing literature search through the online databases. There are other studies that may be indirectly linked to this paper's purpose of searching for the linkage between firms' survival more than one century and innovation, like Jovanovic's (1982) theory of 'noisy selection', and Pakes and Ericson's model (1998) whose concerns are not the same as this paper. In Jovanovic's model, firm dynamics depend on the learning process that enables firms to discover and adapt to their particular level of efficiency, given the existence of asymmetries in efficiency and imperfect information. Over time, firms discover their levels of efficiency through operating in the industry. Ericson and Pakes (1995) extended Jovanovic's model to include the investments of individual firms on research and development. This model contrasts a process of 'active learning' to the process of 'passive learning' in Jovanovic's model, where firm efficiency levels are assumed to be constant over time (Pakes and Ericson, 1998). In Ericson and Pakes's model, firms explore the space of technological opportunities by actively investing in research and by doing so they improve their efficiency and profitability; and ultimately their chances of survival.

Although in literature, some of the studies of innovation take innovation as a basis for the survival and means of sustainable competitive advantage, none of the articles we found indicated that innovation is the reason for firms' long lasting survival. Our research question starts from this point; it would be interesting to explore whether the more than one century old firm' survival depends on innovation.

METHOD

The research is an exploratory qualitative research in its nature since the research objectives are not investigated much in the literature, and content analysis is chosen as a research method considering the objectives. Content analysis is a necessary tool in the study as purpose of the research is to explore whether the firms surviving through the ages sustain due to their innovative capacity. Our main question is that can one clearly observe that the firms surviving through the ages stress innovation on a verbal level by content analyzing their web sites. Content analysis is the only appropriate research method as the main purpose of the research is to what extent these ages firms differ from the rest on a "verbal level" not on the operational level assuming if they are the best they should give a sign of high level awareness on their websites even though all written material may represent ideals besides it would be almost impossible to enter to the 41 leading companies with the limited budget and time. The population of this study is composed of firms surviving through the ages of the global market. The 41 firms which survive through the ages will be content analyzed from the www.henokiens.com website. Each firm's "Home page" was accessed using this web address and www.google.com. After examining each firm's "Home page" to determine the presence or absence of innovation then clicked on the firm's web page and likewise examined it.

Content analysis was done by examining the Henokiens' web sites and each firm's own web pages. Each firm's own web page is read and taken notes in details by clicking on all the the headlines such as Company today, About Us, Group, expertise, press, profile of our firm, Distribution partners, News, Sustainability, investment service, products, communication, Funds Awards, Activities, General presentation, Historic, fabric procedure, the family, identity, resellers, images, Fleet, Galleries, Links, Contacts, Milestones, Contracts, Write house, Privacy, Help.

LIMITATIONS OF THE STUDY

Two limitations are present and need to be considered when interpreting the results of the research. First of all, the information and messages released online by organizations are one-sided declarations, and it is not guaranteed that they are applied and realized in the real life. This may limits the generalizability of the study. Taking into consideration this point, we limit our research with only the innovation concept.

Second limitation in this study is about the measurement of the information gathered. The "contents" of the online innovation concept provided and the "frequency" of the items are the most important information this study bases on. This type of evaluation may disregard the weight and importance of the information provided. Innovation concept was explored either Henokiens or Firm's web pages.

VALIDITY OF THE RESEARCH

To ensure validity of the research, semantic validity has been taken into account. In order to be done semantically valid study, each researcher independently and individually categorized the items of innovation concept, and the independent sorter examined the themes, made discussions and the themes have been placed under same categories with an agreement on a final categorization in the content analysis process.

POPULATION AND SAMPLING

The population of this study is composed of Henokiens which is an association of family and bicentenary companies, the Henokiens intend to enlarge their family circle. Today, there are 41 members: 15 Italian, 12 French, 3 German, 2 Dutch, 1 from Northern Ireland, 5 Japanese, 1 Belgian and 2 Swiss. According to

Henokiens Page; *In 1981, recognizing and co-opting each other, they formed a group, creating a restricted and rigorous international organization. Henokiens Association membership criteria are: company longevity – a minimum age of 200 years – and permanence – the family must be owner of the company or the majority share holder - one member of the founder must still manage the company or be a member of the board – and the company must be in good financial health. In addition, being modern is a final requirement. Created in 1981, the objective of the Association is the development of its membership throughout the world around a common philosophy: the value of the concept of the family company, real alternative to the multinationals. It is not a brotherhood, the sectors in which the members carry on their activities are in fact highly diversified: craft industries, trades, services, publishing, heavy industry. Nor is it a businesses club (certain firms may even be competitors). The Henokiens do not exchange services, they exchange only ideas”.*

Henokiens is chosen as population of this study since the aim of this study is to observe whether there is a linkage between long time survival and innovation. As members of Henokiens are at least more than two hundred years old, it will be interesting to discover whether innovation is one of the reasons why they survive many years. Surely the findings can not be generalized, and results can only be taken as first insights on the observed phenomena.

Researchers can only understand English, so the Henokiens whose have English web sites will be content analyzed. All the firms will be analyzed from general web sites of Henokiens if possible as the aim of the study is to discover Henokien’s survival and their stress to innovation as long time survival. Table 2, that composed of the Henokien’s Web site of <http://www.henokiens.com> and each firm’s individual web sites, shows general characteristics of the population. According to the Table 2, only 32 firms have English web sites, 2 firms’s web sites are in their original language, the rest of the firms’ have neither web sites nor web pages that can be read due to limited information or difficulties in open their pages. So we extracted 9 firms from the analysis.

As Table 2 indicates majority of the Henokiens are from Italy (36,59%), others from France (29,27%), from Japan (12,20%), and Germany (7,32). The rest of the 14.62 percentage is shared among Belgium, Ireland, Netherlands and Switzerland. Considering Japanese firms are only 12,20% of the whole population, it can be said that the Henokiens are mostly European, and Italian and French firms will dominate the findings of the study.

Table 2: General Information about the Population

Country	Name of the Firm	Web Page	Web page in English	Total/ Sample	% of Population
Germany	Friedr. Schwarze	http://www.schwarze-schlichte.de	No	3/2	7,32
	Möllergroup	http://www.moellergroup.com	Yes		
	J.D. Neuhaus	http://www.jdn.de	Yes		
Belgium	D'ietenen	http://www.dieteren.com	Yes	1/1	2,44
France	Banque J.P. Hottinguer & Cie	http://www.hottinguer-jph-cie.com	Yes	12/8	29,27
	Baronnie De Coussergues	http://www.chateaucoussergues.com	Yes/ N.A.		
	Delamare Bois	http://www.delamare-bois.com	No		
	Sfco – Maison Gradis	There is no web page	No		
	Hugel & Fils	http://www.hugel.com	Yes		

	Louis Latour	http://www.louislatour.com	Yes		
	Editions Henry Lemoine	http://www.editions-lemoine.fr	Yes		
	Mellerio Dits Meller	http://www.mellerio.fr	Yes		
	Revol	http://www.revol-porcelaine.fr	Yes		
	Jean Roze	There is no web page	No		
	Thiercelin	http://www.thiercelin.com	Yes		
	Viellard Migeon & Cie	http://www.viellardmigeon.com	Yes		
Ireland	William Clark And Sons, Ltd.	http://www.wmclark.co.uk	Yes	1/1	2,44
Italy	Amarelli	http://www.amarelli.it	Yes	15/13	36,59
	Augustea	http://www.augustea.com	Yes		
	Barovier&To	http://www.barovier.com	Yes		
	Beretta	http://www.beretta.com	Yes		
	Cartiera Mantovana	http://www.cartieramantovana.it	Yes		
	Fonderia Campana Colbachini & Figli	http://www.fonderiacolbachini.it	N.A.		
	Confetti Mario Pelino	http://www.pelino.it	Yes		
	CRESPI 1797 S.P.A.	http://www.crespi1797.it	Yes		
	Ditta Bortolo Nardini S. P. A	http://www.nardini.it	Yes		
	Giobatta & Piero Garbellotto S.P.A	http://www.garbellotto.it	Yes		
	FALCK S.P.A.	http://www.falck.it	Yes		
	LANIFICIO G.B. Conte Spa	http://www.gbconte-galtes.it	N.A.		
	Monzino 1750	http://www.monzino.it	Yes		
	Piacenza	http://www.piacenza1733.it	Yes		
Torrini G.S.R.L.	http://www.torrini.it	Yes			
Japan	Akafuku	http://www.akafuku.com	Yes/limited	5/4	12,20
	Gekkeikan Sake Company,	http://www.gekkeikan.co.jp	Yes		
	Hoshi	http://www.hoshi.co.jp/jiten/Houshi_E	Yes		
	Okaya	http://www.okaya.co.jp/	Yes		
	Toraya	http://www.toraya-group.co.jp/	Yes		

Netherlands	De Kuyper	http://www.dekuyper.com	Yes/limited	2/1	4,87
	Van Eeghen	http://www.vaneeeghen.com	Yes		
Switzerland	Lombard Odier Darier Hentsch & Cie	http://www.lombardodier.com	Yes	2/2	4,87
	Pictet & Cie	http://www.pictet.com	Yes		
TOTAL	41 Firms	40 Firms	9 Firms	41/32	100

In order to observe the national distribution of the sample and compare it with the population and determining the sample size the table below is extracted. According to the Table 3, all the nations within the Henokiens included in the content analysis process, and majority of the firms in the sample are from Italy (40,64%), France (25%) and Japan (12,5%) that means general characteristics of the population is more less the similar in the sample.

Table 3: Population and Sample Size

Country	No. Firms in Total	Sample Size	% of Sample
Germany	3	2	6,25
Belgium	1	1	3,12
France	12	8	25
Ireland	1	1	3,12
Italy	15	13	40,64
Japan	5	4	12,5
Netherlands	2	1	3,12
Switzerland	2	2	6,25
TOTAL	41	32	100

FINDINGS

Table 4 summarizes all the henokiens' characteristics in line with their sectors, foundation dates, ages and generations in order to understand general specification of the Henokiens. The youngest firm is 201 years old from France and the oldest one is 1293 years old from Japan. The generation of the firm varies from 6th to 46th. The sectors of the firms are all mature industries that some of them in the earlier stage of the globalization.

Table 4: General Characteristics of the Population: Sectors, Foundation Dates and Generation

Country	Name of the firm	Sector	Foundation Date/ Age	Age	Generation
	Fiedr. Schwarze	Alcohol drinks and liquor	1664	346	11th

Germany	Möller Group	Plastic technology	1730	280	8th
	J.d. Neuhaus	Air hoists	1745	265	7th
Belgium	D'ieteren	Automobile, auto glass	1805	205	6th
France	Banque J.P. Hottinguer & Cie	Private bank	1786	224	No information
	Baronnie de Coussergues	Viniculture, wine cellar	1488	522	No information
	Delamare Bois	Wood, lumber merchant	1690	320	No information
	Sfco – Maison Gradis	Maritime trade	1685	325	No information
	Hugel & Fils	Wine	1639	371	No information
	Louis Latour	Wine	1797	213	10th
	Editions Henry Lemoine	Music	1772	238	No information
	Mellerio dits Meller	Jeweler	1613	397	14 th
	Revol	Porcelain	1789	221	No information
	Jean roze	Silk cloth	1756	254	12 th
	Thiercelin	Saffron, spices	1809	201	7 th
	Viellard Migeon & Cie	Aerospace, automotive, medical, cosmetics	1679	1679 /331	No information
Ireland	William Clark And Sons, Ltd.	Textile	1736	274	9 th
Italy	Amarelli	Calabria liquorice	1731	279	No information
	Augustea	Maritime trade	1629	381	No information
	Barovier&to	Glassmanufacturing	1295	715	No information
	Beretta	Firearms manufacturing	1526	484	13th
	Cartiera Mantovana	Paper, cardboard	1615	395	No information
	Fonderia Campane..	Bell foundry	1746	264	No information
	Confetti Mario Pelino	Confetti ,sweets and liquorice	1783	227	No information
	Crespi 1797	Textile	1797	213	7 th
	Ditta Bortolo Nardini S. P. A	Liquorice	1779	231	11 th
	Giobatta & Piero Garbellotto	Wine making (wood)	1775	235	8 th
	Falck S.P.A.	Iron – steel	1700's (not clear)	About 310	No information
	Lanificio G.B. Conte SPA	Wool textile	1757	253	No information

	Monzino 1750	Musical instruments	1750	260	8 th
	Piacenza	Wool manufacturing	1733	277	No information
	Torrini g.S.R.L.	Jewellery	1369	641	Extracted from the groups
Japan	Akafuku	Japanese sweet	1707	303	11 th
	Gekkeikan Sake Company	Sake	1637	373	13 th
	Hoshi	Hotel	717	1293	46 th
	Okaya	Trade	1669	341	13 th
	Toraya	Japanese confectionery	1635	375	17 th
Netherlands	De Kuyper	Liquor	1695	315	No information
	Van Eeghen	Food trading	1632	378	14 th
Switzerland	Lombard Odier Darier Hentsch	Private bank	1796	214	No information

When we analyze the Henokiens and the firms' Web page there are innovation categorization for each firms in these pages. They introduce some firm by stressing "the innovation concept and innovation type. We categorized innovation approaches of the Henokiens in the sample, and linkage each firms make with their survival by content analyzed in each firm's own web sites and Henokiens web page as in table 5. As it can be seen from Table 5, in 27 firms out of 41 in total, innovation concept was not stressed at the Henokiens web page. All the firms in the henokien's web sites were analyzed as it is in English in order to observe general attitude of all the firms towards innovation as this may give us an extra opportunity to observe whether innovation is vital for the Henokines. The findings are interesting as it is expected to see many firms, emphasizing innovation and its role for their very long term survival.

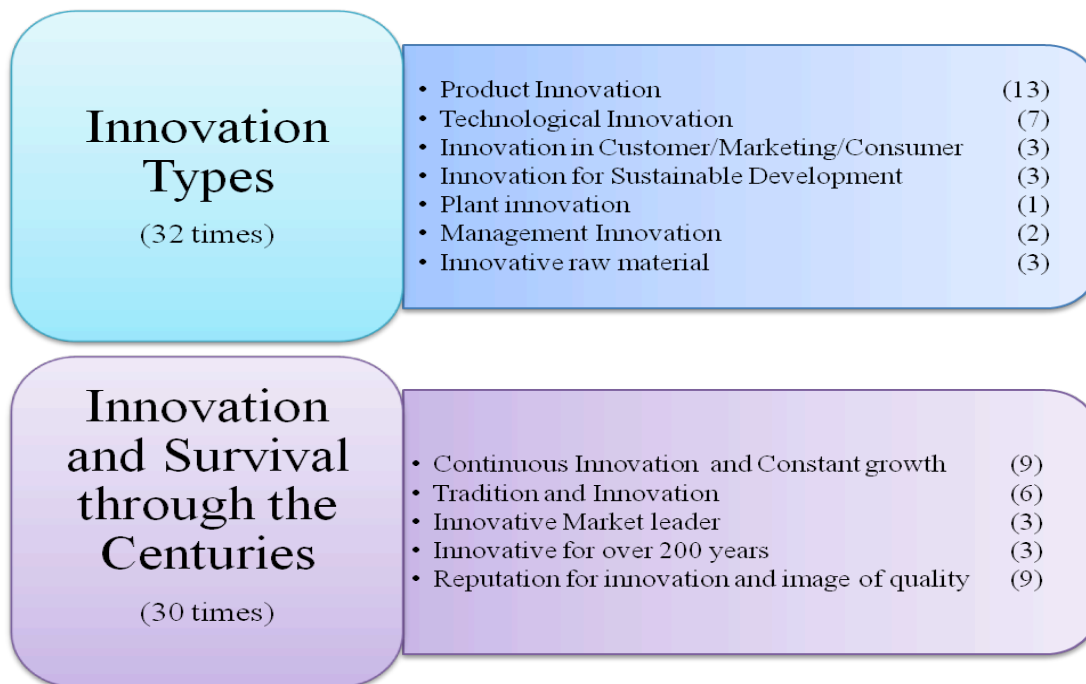
In Firm's own pages, innovation concept and its role for firm's survival are observed and categorized in table 5 below. 19 firms out of 32 firms in the sample stressed innovation concept, and importance of it. The most stressed type of innovation is product and technological innovation, as 20 times representing 62.5% of the whole sample. When considering the linkage between long term survival and innovation, only about 28% of the whole sample clearly stresses continuous innovation, and that is the most highlighted item.

Table 5: Innovation Categorization of the Firms in Web Pages

Innovation Types	Henokiens Web Page	Firm's Own Web page
	Frequency	Frequency
Continuous Innovation and Constant growth	3	9
Tradition and Innovation	4	6
Product Innovation	4	13
Technological Innovation	2	7
Innovation in Customer/Marketing/Consumer	-	3
Innovation for Sustainable Development	-	3
Plant innovation	-	1
Management Innovation	-	2
Reputation on innovation and image of quality	3	9
Innovative raw material	-	3
Innovative Market leader	-	3
Innovative for over 200 years	-	3
TOTAL	16	62

When we recategorized all the findings shown in the table 5 according to the main aim of the study, we created the table 6 below. The table indicates what stress these 19 firms make on the observed issue, such as

Table 6: Reconstruction of the Findings in line with the Aim of the Study



which innovation competence and what type of innovation they are specialized for, and how vital they see for their survival. Although only about 59% of the Henokiens in the sample emphasized innovation, this might be taken as a signal for the importance of the innovation, and might be an indicator of the role of innovation for survival through the centuries in the sample. When focusing on the linkage between innovation and survival

through the centuries, it can be clearly seen that continuous innovation and reputation for innovation are the most stressed items. Considering the linkage side of the findings in Table 6, Interesting Findings is that six of the Henokiens out of 32 stress clearly the fact that they combine tradition and innovation through their survival. Although this finding is parallel with the general web page of the Henokiens, where it is clearly mentioned that “The Henokiens are deeply rooted in the economic realities of the present and they manage their companies with talent, navigating between modernism and tradition, between know-how transmitted from the past and innovation or diversification”, generalizability of the statement is not clear as much as it is advocated in the page. Similarly in the interview at Henokiens web page with Monzino Group, the group’s leader highlighted innovation exactly with following words: “...longevity is also a result of the ability to have a feeling for and to interpret in time what's coming and to be able to innovate so as to offer the market increasingly attractive products, services, policies and image”. All these statements and the findings indicate the importance of the innovation for the survival of the Henokiens in the sample on one side, not enough emphasis has been put on innovation on the other side. Furthermore only few firms clearly highlight that their perspective of competition stems from the resource based view. This is another suspect we have as it does not really overlap with the established literature.

CONCLUSION and DISCUSSION

In literature, although innovation is accepted a core concept of survival and sustainable competitive advantage, none of the articles or studies focusing on the linkage between innovation and survival through the centuries found in the literature review searching through the online databases available at libraries and internet. Only Koiranen’s (2002) article has been found that seems related to our study. When looking at carefully to the research, an explorative study examining mainly how Finnish family firms rank their business values, only some of the values seem related to innovation indirectly such as intuitive, open, idealistic and self-esteemed. It is interesting to observe no direct and strong emphasis within the business value of these firms, that are over hundred years of age family firms which is very much similar to our sample. Adding up all the findings of our study and this study, it can be said that survival for a firm over the centuries may not necessarily depends on innovation competence of the firms. Bakoğlu’s (2004) explorative research on growth mechanisms of old goldsmith in Kapalıçarşı, Istanbul, Turkey gives no clear insight for the linkage of long term survival and innovation.

As a result it can be said that it will be too early to inference whether survival through the centuries depends on innovation or not. This study can only be described as one of the pioneer studies that shed some light on the observed phenomena. More researches with different sample and population should be done with larger sample size with this purpose. Family firms may have been lasting for over a century some other attributes. A research focusing on the reasons for firm survival for over centuries should be done and literature gap within this area should be covered.

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THE ROLE OF INNOVATION FOR REDUCING THE EFFECTS OF THE CRISES

Sefer Şener
Mesut Savrul
Can Köse

Çanakkale Onsekiz Mart University, Turkey

ABSTRACT

The intensity of the global financial crisis that has affected many countries in the world has decreased but the world is still in a recession. Beginning from the first days of the crisis when the stock markets explained the high losses, the countries have resorted to several ways, implemented stimulus packages and lavished their expenditures to find a way out the crisis. One of the proposals to alleviate the effects of the crises is emphasizing innovation and R&D activities. In this way, high value-added outputs can be obtained and that will allow increased competitiveness too. Innovation represents renewal or a significant change in product, process, marketing method or organizational structure. R&D studies are the most important prerequisite to be innovative both on the basis of the country and sector-specifically. The statistics of R&D budgets of countries and sectors and the count of R&D staff is in a close interaction with developments in technology and therefore with innovation. In addition, patent applications and number of staff with higher education are used as indicators innovation.

In this study, the relation between innovation performance of European countries and crisis in terms of use of innovation in reducing the effects of crisis has been assessed. For this purpose the efficiency of Summary Innovation Index (SII) developed by European Commission in pre-crisis and post-crisis periods have been examined on the basis of performance of countries. The indicators have been compared with the changes in RGDP of the countries and it has been inferred that innovative sectors and countries have been affected from the effects of the crisis less. As a result, the positive impact of innovation for reduction of the effects of the crises and acceleration of the phase of getting out of the crisis has been laid in front of the eyes.

Keywords: Global Crisis, Crisis Management, Innovation

INTRODUCTION

The 2008 global financial crisis broke out in the USA has been tagged as the worst financial crisis since the Great Depression. The crisis has not only influenced the financial markets and the economy of the U.S. but it has spread over the other financial markets worldwide. 2008 has been a turning point for the world economy and economic growth in the world has slowed heavily since the last quarter of 2008. Governments presented various stimulus packages to relive the impacts of the crisis. However incorporate forward-looking structural measures and innovation should be injected into the mix of policies to assure sustainable growth to make the recovery process to be perennial.

Emphasizing innovation lets the countries have high value-added outputs and that will allow increased competitiveness too. Innovation helps the countries to boost their productivity and sustainable growth. So that importance of strong innovation performance is much more crucial for an economy to survive in the global arena and the innovation procedures may be useful in perception of possible changes in the future and their effects on social and economic development. In this regard innovation performance of the countries can be a pathfinder in their strategy developing stages by putting strengths and weaknesses of them forward and as a result may guide them get out of the crisis.

In the study, whether innovation can help the countries in easing the impacts of crisis has been assessed. As an indicator of innovation The European Innovation Scoreboard which covers the 27 EU Member States, Croatia and Turkey, the associate countries Iceland, Norway and Switzerland, summarising the main elements of innovation performance such as knowledge creation measures, innovation potential, the investments in R&D activities, innovation & entrepreneurship measures under application and intellectual property measures has been

used. SII statistics covering 2004-2009 have been evaluated and have been compared with the change of RGDP in the mentioned years. Temporality effect on the relation between RGDP and SII prevents the RGDP and SII figures of the same year to explain each other synchronously. So grouping countries under four groups based on "OECD Strategic Response to the Financial and Economic Crisis" presenting long term innovation performance of the countries thought to be fit. The results of the study revealed that the countries with high innovation performance had less damage in the crisis period.

2008 GLOBAL FINANCIAL CRISIS

The financial system has been changing rapidly for a couple of decades. Non-bank intermediaries carried intermediation to greater levels via private equities and hedge funds that have higher leverage in risk-adjusted terms than traditional ones. Deepening in capital resale markets, financial products and contracts which became more complex in this period led credit derivatives and asset-backed securities to mushroom (Gai, 2008: 7).

As a result financial systems of the world began to meltdown in 2008. Sub-prime mortgages in the USA have gone bad, the big banks have been supported by governments, and consumer demand has fallen down. Currently the debates are focused on what went wrong, who was wrong and what will go wrong in the future, but the damage has been done (Strategic Direction, 2009: 18).

Bankruptcy of Lehman Brothers on September 2008 led to panic in international fund market. Many banks and stock markets all over the world suffered great losses and market value of many firms decreased. Besides, financial institutions couldn't get their equity assets due to locked credit market (Floyd, 2009). Federal Reserve, European Central Bank and some other central banks tried to solve the problem by purchasing the troubled funds from the banks. This was the largest liquidity injection into the credit market, and the largest monetary policy action, in world history (Altman, 2009).

The global financial crisis began in the USA has been labelled as the worst financial crisis since the Great Depression by many including George Soros, Joseph Stiglitz, and the International Monetary Fund. The crisis has caused a great financial shock, heavy damage on markets and institutions. The crisis has not only affected the financial markets and the economy of the USA, but it has also been spreading over the other financial markets worldwide (Majid and Kassim, 2009: 341).

U.S. consumption accounted for more than a third of the growth in global consumption between 2000 and 2007. In this respect, economy of many countries, being trade partner with USA, have been easily affected by the deterioration in the economy of USA due to the shrinkage of demand in USA. For the first quarter of 2009, the annualized rate of decline in GDP was 14.4% in Germany, 15.2% in Japan, 7.4% in the UK, 9.8% in the Euro area and 21.5% for Mexico (Baily and Douglas, 2009).

2008 has been a turning point for the world trade and economy. Growth in the world economy slowed severely by the last quarter of 2008 and increase rate of the world GDP which was 3.7% in 2007 and 3.5% between 1994-2008 on the average slowed down to 2% in 2008. In spite of the recovery, GDP of United States grew by 1.1% and by less than 1% in the European Union. Advanced economies are expected to shrink by 4.1% in 2009 (UN, 2009: 1). The global crisis has deeply affected the industrialized world including EU. Sudden effects of the global crisis such as stagnation in credit markets, the reversal of capital flows, declines in exchange lingers. However shrinkage in credits declines in residence and stock markets caused loss of confidence among business and consumers. Although stock markets of high-income and emerging economies have regained almost half of their values they lost in the crisis period and Economic Sentiment Indicator has improved for 9 since March 2009, it is still below the average. Global GDPs started to rise again in the second half of 2009 by the help of financial stimulus packages after great decline in 2008. But emerging economies that have trade relations with EU and OECD had their share from the effects of the crisis. Economic projections display that fragility in financial markets will persist in 2010 and 2011 and the recovery for EU is still far away because financial systems of European countries severely affected by the crisis, their recovery is expected to take a long time. (EC, 2009: 1, Worldbank, 2010: 1-3).

Governments presented various stimulus packages to prevent collapse of financial and banking systems and to ease the impacts of shrinkage of credits. a rapid recovery and stabilising the economy was intended through these policies however they should be planned based on sustainable growth to assure the recovery process to be perennial. In these regard governments can incorporate forward-looking structural measures and innovation should be injected into the mix of policies to handle with the crisis (OECD, 2009a: 5,10).

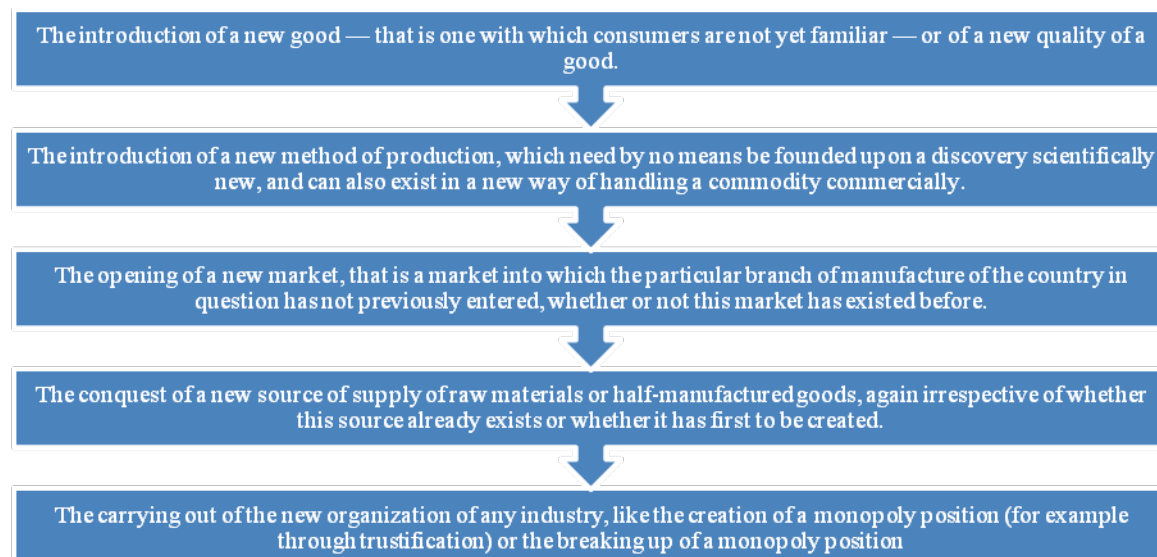
INNOVATION

Great increases in access to information have been seen and new markets have emerged due to the globalization which brought greater international competition and in new organizational forms out. Technological advances and greater flows of information have led the knowledge to be seen as a central driver of economic growth and innovation (EC, 2005a: 10).

Knowledge economy is on the basis of innovation. One of the basic concepts that fuel the new economy is the innovation that envisions constant renewal of products, systems, processes, marketing and labour. Innovation is a concept that both express the process and the result. In EU and OECD literature innovation is defined as transformation of an idea into a marketable product or service, new or improved manufacturing or distribution method or a new social service method (Kavak, 2009: 617-618).

Innovation aims not to invent what is undiscovered but to explore ways to create value. Innovation ensures sales and market share growth through enhanced and improved delivery performance and rise in the number of new products/services. It also helps reduction of costs through reduction of manufacturing or servicing times, productivity increases and efficient usage of resources and time (Elçi, 2009: 62, 64) which means that this process provides the same products and services to be presented in different forms of means. In this respect, the process of innovation is not just a concept pairing high-technology, but it is a process which can be practiced in the whole high or low-technology manufacturing and services sectors (Tilina, 2009: 225). In this respect innovation can be implemented for many explanations and can be under different forms. Schumpeter (1934) whose study has been the pathfinder for the following studies on innovation, has categorized innovation under five forms.

Figure 1: Forms of innovation

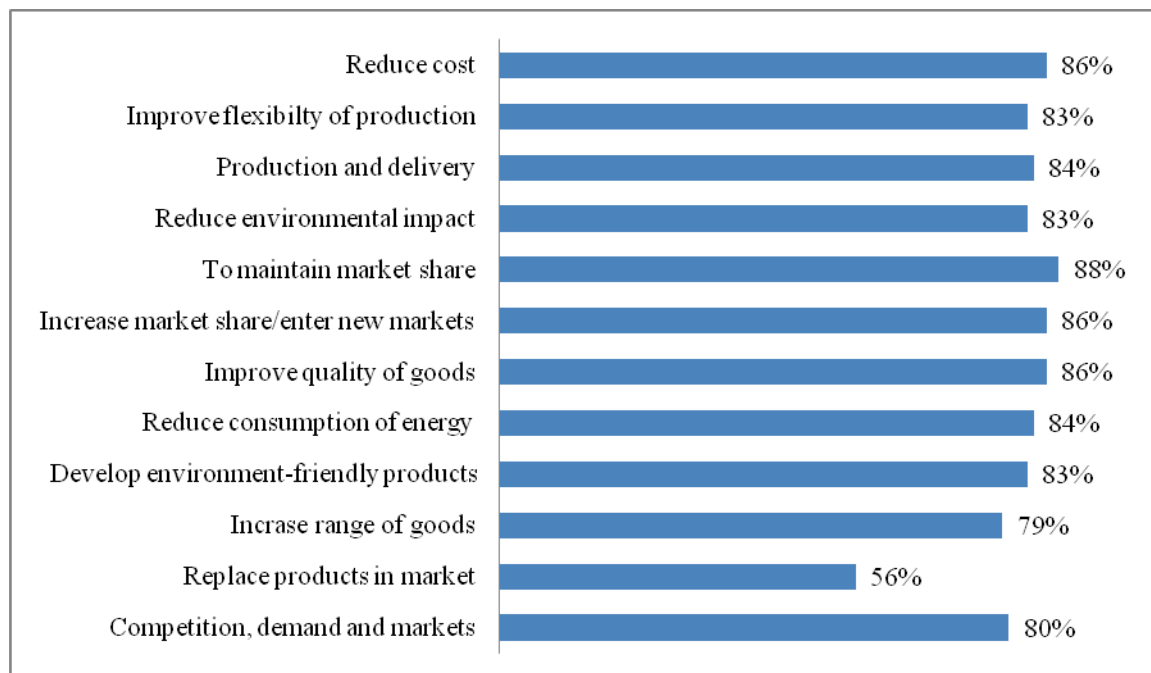


Source: Schumpeter, J. (1934), *The Theory of Economic Development*, Harvard University Press, Cambridge, Massachusetts.p.66.

Innovation can show up in any sector of the economy from manufacturing and services sector to government services. Innovation activities cover all scientific, technological, organisational, financial and commercial steps which lead to the implementation of innovations. Besides product and process innovations many other phases of development are counted in innovation such as development for preproduction, production and distribution, new marketing and new organisational methods (EC, 2005: 18).

In development process, technological change, reach to information, organizational structures and institutional factors innovation processes differ thoroughly from sector to sector (Malerba, 2005: 380). In this sense in micro and macro levels the objectives motivating innovation, displayed in Table 1, varies due to sector and country specific values and priorities.

Table 1: Objectives motivating innovation



Source: Pilar, Maria del Pilar and Pérez, Pastor, (2009), “Innovation in a Mexican Local Context”, Economics and Organization of Enterprise 1/2009, Vol 3(1); 58-72, p.67.

Engagement in innovation activities may have many different explanations. Objectives may relate to products, markets, efficiency, quality or the ability to learn and to implement changes. Pérez (2009) categorized these explanations under maintaining market share, improving quality of goods, increasing market share or entering new markets, reducing cost, reducing consumption of energy, production and delivery, developing environment-friendly products, reducing environmental impact, improving flexibility of production, competition, demand and markets and increasing range of goods from the greater importance to the less by the driver lead both the enterprises and countries.

Innovation as a key to regional development and no country in the world can compete in the global economy just hold to exploitation of natural resources or cost advantages without innovation capacity. Accepting an effective policy in this new policy design and determining the right content isn't a simple issue and requires tools such as foresight and evaluation studies (Reid, 2009: 1-2). As a matter of the fact, policy makers have begun to emphasize innovation strategies not only at national level but also regional level too since 1990s. In this respect EU structural funds have recently directed towards the activities that create knowledge environment to stimulate innovation (Commission of the European Communities, 2007: 6). Many regions EU formed development policies through operational programs. Innovation strategies such as strategies for the information society, innovation strategies for tourism and personal services have taken their places within the framework of this policy (Commission of the European Communities, 2006: 6).

As Alexandros (2006) has quoted from Fink (1986) “crisis management is the art of removing much of the risk and uncertainty to allow you to achieve more control over your own destiny”. Consequences are the immediate and long-term impacts; caution includes the measures taken to prevent or minimize the impact of a potential crisis, and coping comprises measures taken to respond to a crisis that has already occurred (Paraskevas, 2006: 893). In this regard the innovation performance of the countries can be a pathfinder in their strategy developing stages by putting strengths and weaknesses of them forward. However, in policy making not only the possible changes in the policy owner country but also priori changes in the world should be taken into account and the innovation procedures may be useful in perception of possible changes in the future and their effects on social and economic development (OECD, 2005, 9).

Innovation is a consistent process. Producers frequently alter the way they produce and collect new knowledge. This process affects the factors that influence innovation activities and the outcomes of innovation (EC, 2006). Innovation helps the countries to boost their productivity and sustainable growth. So that importance of strong innovation performance is much more crucial for an economy to survive in the global arena (OECD, 2008: 12). Innovation and exploitation of scientific discoveries and new technology are seen fundamental for long term economic growth and social welfare in advanced industrial countries. Moreover innovation

performance of a country will become even more important for economic and social development in the coming period (OECD, 2005: 7-8). In this regard, innovation which is a significant factor in long-term growth of countries can help the countries foresee the coming crises as a crisis management tool, survive by reducing their costs, boosting their productivity, obtaining they have high value-added outputs and increasing their competitiveness in the crisis times and can play an active role in reducing the effects of the crises.

ROLE OF INNOVATION FOR REDUCING THE EFFECTS OF THE CRISES

Innovation and crisis are contrary terms in many cases. Expenditures on innovation seem costliness in economic distresses and when the budgets are trimmed they usually are at the top of list. On the other hand recovery and long-term growth call for an innovative society. Research and innovation not only help to create more jobs, but also increase prosperity and the quality of life in general. By investing on innovation, governments can mitigate the effects of the crisis, boost recovery and thus enable strong and sustainable growth. After all, innovation is a key concept in achieving growth and economic development.

The available cases display that the crisis had negative impacts on innovation. Historically, business R&D expenditure and patent filings have moved in parallel with GDP, decelerating during the economic distresses of the early 1990s and 2000s. Growth in R&D spending is either in a decline or slowdown in many countries according to corporate reports for the fourth quarter of 2008 (OECD, 2009a: 5-6). However this decline is much softer compared with the other budget cuts of the enterprises and governments. In this regard relation between innovation performance of the countries and crises is a current issue. The examples of those in literature are as follows:

Linsu (2001) dealt various aspects of innovation-crisis relation. He analyzed effects of Asian crisis on South Korean economy and stressed that the Asian financial crisis has resulted in tremendous economic and social consequences in South Korea in terms of rising bankruptcies and unemployment and dwindling living standard. He stressed that not only innovation can help easing the crises but it can also introduce an opportunity for the countries to make fundamental changes in their innovation policies.

Keller and Samuels (2003) have argued relations of technological innovations in transportation, communication and elements of infrastructure with the Asian Crisis in their study they conducted from 1999 through 2001. According to them Asian innovation systems to the crisis did affect macroeconomic and industrial policies. It has also affected the ways in which business is transacted throughout the region. They also asserted that United States and European companies have gained greater access to some formerly resistant Asian economies, through direct investment, possibly even through technology acquisitions which may be gains of the crisis by means of role of use of innovation.

Gai et.al. (2008) examined the implications of developments for the likelihood and potential scale of system-wide financial crises. They stressed the financial system has been changing rapidly in recent years, macroeconomic volatility has fallen in developed countries and argued that innovation is essential for the financial system just as the other sectors. Finally they suggested a model that financial innovation and greater macroeconomic stability may have made financial crises in developed countries less likely than in the past.

In their study Tilina and Ispas (2009) emphasized that after the crisis The European Union has publicized 2009 the year of creativity and innovation. They argued that whether the economy is in recession or not innovation is the key to sustain growth. They also argued that innovation plays a critically important role in Europe's ability to respond effectively to the challenges and opportunities of the global economy. All forms of innovation, including non-technological innovation must be taken into account and as Jong and Schoemaker (2009) suggests that, for some companies, the economic crisis can actually provide an innovation platform.

In practice the U.S. and Japan are traditionally the good examples of the advanced countries in terms of industry and technology. Research, technological development and innovation support in these countries has been continuing for many years (EC, 2008: 53). Innovation in U.S. has a stable structure shaped by the size, number and diversity of government, academia, private sector and non-profit organizations involved. The Office of Management and Budget (OMB), which evaluate Annual budget and performance review of agency programs, compared to the ones of EU or other member countries is a much stronger organization. Besides, the federal government support for innovation for the framework measures such as infrastructure development and intellectual capital, financial market regulation and interstate commerce directed towards structural criteria. Innovation initiatives from many organizations at various levels provide support to the development and this system is applied in the U.S. by far have yielded successful results (EC, 2008:53).

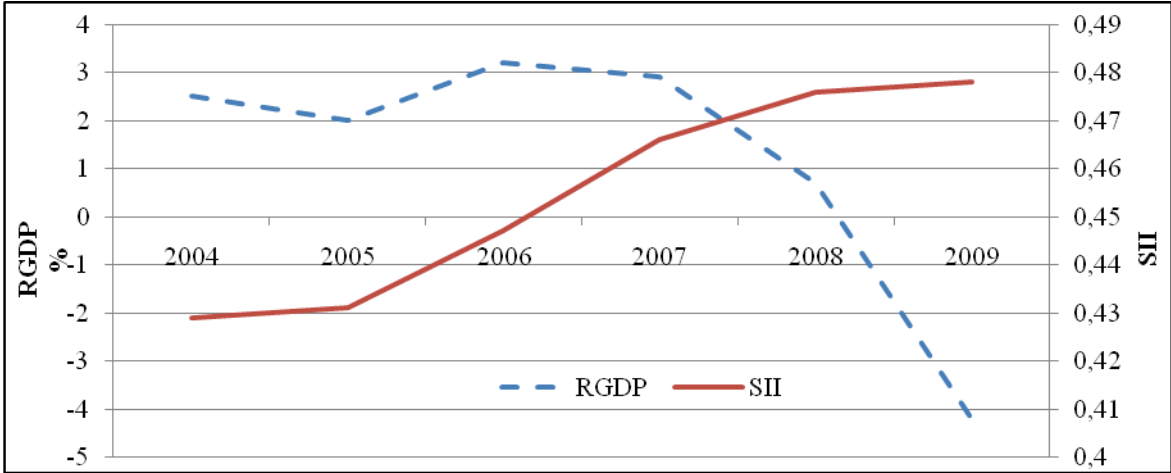
Japan is in the forefront of world science in many indicators and has a leading place in intensity of business R&D within OECD countries. Nevertheless, R&D output does not always seem to be proportional to the R&D investment. Especially in the last ten years, the increase in employee productivity levels in Japan corresponded to OECD countries and this is the major factor of the difference between the per capita GDP of Japan and the leading OECD countries. Basic science and technology policies of Japan focus on issues such as aging of the population and climate change. Thus, in 2008 the priority is to invest in human resources and the overall policy is to support innovative activities through ongoing reforms (OECD, 2008: 132).

Besides U.S. and Japan, many European countries have a leading position in the world on technology and science. So analysing innovation performance of these countries in crisis period is significant. The innovation performance of these countries can be grounded to The European Innovation Scoreboard (EIS). EIS covers the 27 EU Member States, Croatia and Turkey, the associate countries Iceland, Norway and Switzerland. The indicators of the EIS summarise the main elements of innovation performance.

“Innovation inputs cover three innovation dimensions: Innovation drivers measure the structural conditions required for innovation potential; Knowledge creation measures the investments in R&D activities, considered as key elements for a successful knowledge-based economy; and Innovation & entrepreneurship measures the efforts towards innovation at firm level. Innovation outputs cover two innovation dimensions: Applications measures the performance, expressed in terms of labour and business activities, and their value added in innovative sectors; and Intellectual property measures the achieved results in terms of successful know-how.” EC, (2008: 34),

In practical terms, countries were grouped using the classification of the European Innovation Scoreboard based on the Summary Innovation Index (SII). Comparing SII index of EU27 with its RGDP change may reveal innovation performance of the region in crisis period.

Figure 2: RGDP and SII Change in EU27 (2004-2009)



Source: Eurostat, (2010), Real GDP growth rate, <<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>>, (22.02.2010). EC, (2010), European Innovation Scoreboard (EIS) Belgium, p.72. EC, (2008), European Innovation Scoreboard 2007, Comparative Analysis of Innovation Performance, Italy, p.51.

Hypothetically, the response to the impact of the crisis on innovation in different countries should correlate with their innovation performance, general investment capacities, and maturity in political and strategic planning (EC, 2009: 3). However many political and economic factors are directly related to the crises. Thus, innovation investment performance of a country alone cannot be thought as a crisis preventing device. As seen in Figure 2, SII performance of the EU27 countries is in an increasing trend since the past. The second plot in the figure presents the changes in the RGDP of EU27. The plot reveals destructive effects of the crisis in EU-wide. The fact that innovation is a persistent progress gained acceptance in EU countries. Innovation is seen as a key in EU and the governments which cut governmental expenditures in many fields try to maintain their innovation investments as much as possible.

Yields of innovation come in view in long-term, and there is a temporality effect on the relation between RGDP and SII which prevents the RGDP and SII figures of the same year to explain each other synchronously. In this regard, using the country innovation classification of European Commission (EC, 2009) will be to the

point to be able to evaluate the effect of innovation on their RGDPs. This classification associated the European countries into four groups:

- Denmark, Finland, Germany, Sweden, Switzerland and the UK, the innovation leaders;
- Austria, Belgium, Cyprus, Estonia, France, Iceland, Ireland, Luxembourg and the Netherlands, and Slovenia, the innovation followers;
- The Czech Republic, Greece, Hungary, Italy, Lithuania, Malta, Norway, Poland, Portugal, Slovakia and Spain, the moderate innovators;
- Bulgaria, Latvia, Romania, Croatia and Turkey, the catching-up countries.

This classification based on the long term innovation performance of the countries. Namely, Innovation Leader countries have been giving weight to innovation investments for a long time while Catching-up Countries are relying upon Innovation Leaders in innovation. In this context, Table 2 presents changes of RGDP and SII figures of the groups mentioned before in the global financial crisis period.

Table 2: RGDP and SII Figures in European Countries in Crisis Period

	2007			2008			2009		
	Sort	Index	RGDP	Sort	Index	RGDP	Sort	Index	RGDP
Innovation Leaders									
Denmark	3	0,602	1,7	6	0,576	-0,9	6	0,574	-4,9
Finland	4	0,585	4,9	3	0,603	1,2	3	0,622	-7,8
Germany	5	0,569	2,5	5	0,581	1,3	4	0,596	-5
Sweden	2	0,63	2,5	2	0,649	-0,2	2	0,636	-4,9
Switzerland	1	0,661	3,6	1	0,683	1,8	1	0,694	-1,5
United Kingdom	6	0,556	2,6	4	0,588	0,5	5	0,575	-4,9
Innovation Followers									
Austria	8	0,523	3,5	7	0,532	2	7	0,536	-3,6
Belgium	9	0,498	2,9	10	0,513	1	9	0,516	-3
Cyprus	15	0,433	5,1	14	0,466	3,6	15	0,479	-1,7
Estonia	14	0,443	7,2	15	0,451	-3,6	13	0,481	-14,1
France	11	0,495	2,3	11	0,5	0,4	11	0,501	-2,2
Iceland	13	0,452	6	13	0,481	1	14	0,481	-6,5
Ireland	7	0,528	6	9	0,515	-3	10	0,515	-7,5
Luxembourg	10	0,497	6,5	8	0,525	0	8	0,525	-3,4
Netherlands	12	0,474	3,6	12	0,484	2	12	0,491	-4
Slovenia	16	0,429	6,8	16	0,448	3,5	16	0,466	-7,8
Moderate Innovators									
Czech Republic	17	0,392	6,1	17	0,41	2,5	17	0,415	-4,8
Greece	22	0,332	4,5	22	0,349	2	21	0,37	-2
Hungary	24	0,305	1	25	0,313	0,6	25	0,328	-6,3
Italy	19	0,361	1,5	19	0,377	-1,3	22	0,363	-5
Lithuania	26	0,294	9,8	27	0,305	2,8	27	0,313	-14,8
Malta	23	0,315	3,8	23	0,34	2,1	23	0,343	-1,9
Norway	18	0,375	2,7	18	0,382	1,8	19	0,382	-1,5
Poland	27	0,293	6,8	26	0,311	5	26	0,317	1,7
Portugal	21	0,34	1,9	21	0,366	0	18	0,401	-2,7
Slovakia	25	0,299	10,6	24	0,316	6,2	24	0,331	-4,7
Spain	20	0,359	3,6	20	0,373	0,9	20	0,377	-3,6
Catching-up Countries									
Bulgaria	31	0,206	6,2	31	0,227	6	31	0,231	-5
Latvia	30	0,239	10	30	0,252	-4,6	30	0,261	-18
Romania	29	0,249	6,3	28	0,278	7,3	28	0,294	-7,1
Croatia	28	0,289	5,5	29	0,278	2,4	29	0,286	-5,8
Turkey	32	0,206	4,7	32	0,218	0,9	32	0,227	-5,8

Source: Eurostat, (2010), Real GDP growth rate, 2010, <<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>>, (22.02.2010). EC, (2010), European Innovation Scoreboard (EIS) 2009, Belgium, p.72. EC, (2008), European Innovation Scoreboard 2007, Comparative

Analysis Of Innovation Performance, Italy, p.51. EC, (2009), European Innovation Progress Report 2009, p.3, <http://www.proinno-europe.eu/page/admin/uploaded_documents/EIPR2009.pdf>(22.02.2010).

Evaluating the table, it can be seen that Catching-up Countries have managed to provide more output from their innovation investments pre-crisis period due to their low GDP level. However these countries had more damage and their RGDP decreased further in the crisis period as regards of the ones in Innovation Leaders, Innovation Followers and Moderate Innovators groups. Over and above it can be anticipated that the effects of crisis will last longer in Catching-up Countries. On the other hand the amount of output provided from innovation and the impacts of the crisis are affected by many other macroeconomic variables and country specific determinants. So it is apparent that the innovation index is not the determinant of GDP by itself.

CONCLUSION

Innovation helps the countries to boost their productivity and sustainable growth. So that importance of strong innovation performance is much more crucial for an economy to survive in the global arena. Therefore, stimulus packages come forward due to the crisis should include the instruments that support innovation to make them long lived.

Generally speaking innovation is a key to get out of the crisis and typically crisis can magnify the competitive advantage of research-intense firms who seize the opportunity to reinforce market leadership through increased spending on innovation and R&D in which innovation leader countries are prominent. In the study directed towards determining the effects of the activities intended for innovation on economic performances of the countries for crisis period, the first inference is that the countries traditionalize innovation strategies and use them effectively for long had less losses in crisis period as regards the others particularly the ones in catching up group. Of course it shouldn't be ignored that effects of innovation on RGDP can be seen in long-term and many other factors affect the RGDP change of the countries.

The next inference carried out depending on SII index and RGDP change of EU27 displays that innovation investments are in an incremental trend despite the negative impacts of the crisis. The trend reveals that innovation may accelerate the process of getting out of the crisis by increasing productivity, sustainable growth and competitiveness of the countries. Based on these inferences causality analyses can be conducted to figure out yields of innovation to GDP and to determine size of it. The study can shed light to the future studies on this aspect.

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MEASURING THE INNOVATION PERFORMANCE OF TURKISH SCIENCE&TECHNOLOGY PARKS: AN APPLICATION OF DATA ENVELOPMENT ANALYSIS

Ilker Murat Ar, Birdogan Baki
Karadeniz Technical University, Turkey

ABSTRACT

Innovation changed the fundamentals of competitive structure plays an important role in firms' strategic management attitude in today's business atmosphere. So, it can be evaluated as an important issue of strategic management concept. This study aims to compare the innovation performance of thirteen Science&Technology Parks (STPs) in Turkey using Data Envelopment Analysis (DEA). The results of the analyses implicated that more than half of them (54%) have reached the optimal level of economy of scale with constant returns to scale. However, three STPs (ESKİŞEHİR, ÇUKUROVA, and MERSİN) have not reached the optimal scale yet because they basically were in the increase returns to scale. The other three STPs (HACETTEPE, KONYA, and ANTALYA) were operating under decrease returns to scale. According to peer results, the STP of TÜBİTAK formed peer to a maximum number of inefficient STPs.

INTRODUCTION

As the millennium draws to a close, the pace of economic, social, and technological change has increased dramatically (Gopalakrishnan, 2000). Globalization of markets and increasing expectations of customers have created a turbulent environment for companies. So, companies have new strategic challenges such as reduced profit margins and higher customer expectations. These radical changes have forced companies to introduce new things constantly and to seek new ways. In this point, innovation plays an increasingly strategic role for companies to successfully overcome to these difficulties. Thus, innovation changed the fundamentals of competitive structure has been one of the key term of strategic management literature. As a result, innovation can be evaluated as an important issue of strategic management concept and also plays an important role in firms' strategic management attitude.

Innovation which is a process of discovery, learning, and application of new technologies and techniques from many sources is an important driver of economic and productivity growth, and ultimately of the improvement in living standards. Many policy makers and researchers believe that competition promotes innovation (Tang, 2006). It has been recognized by policy makers that technology and capability of conducting research are the core factors in regional economic growth and regional development (Kang, 2004). Furthermore, one of the most effective ways of promoting regional economies is often considered to be the transformation of industrial structures into economic activities with higher technological involvement. This is consistent with the national science and technology policies of many countries that attempt to concentrate Research and Development (R&D) activities into a limited geographical space. These types of policies typically involve the establishment of Science&Technology Parks (STPs) (Grayson, 1998). STPs provide spaces for high-technology research and educational activities, industrial production, and other supporting activities such as housing, commercial and administrative services (Shin, 2001). They also provide an effective way of linking between universities and industrial firms.

The advantage of STPs in promoting economic growth in converging countries is an evident topic. In emerging economies, like Turkey, the expectation is that science parks might act as 'development catalysts' driving the startup of newly established high-tech firms and tracing the path for existing firms to process and product innovation (Bigliardi et al., 2006). Therefore, it has been developed cooperative relationships between national and local governments, universities and industries for last decades in Turkey. In this context, most STPs in Turkey have been built by initiatives of the private sectors, universities and local governments. However, it should not be remembered that propositions stated above will only be true if STPs are successful in their operation (Ratinho and Henriques, 2010). Despite the important of this issue, very little research has yet been published on the performance of STPs. This article addresses this research gap. Therefore, the main purpose of this paper is to compare innovation performance of Turkish STPs by Data Envelopment Analysis (DEA). The remainder of this study is organized as follows. Section 2 provides the background information of innovation and STPs. Section 3 reviews the limited empirical evidence on evaluation performance of STPs.

Section 4 outlines the research methodology. Section 5 presents data and empirical findings. The final section consists of preliminary conclusions and suggestions for additional research.

INNOVATION and STPs

In a business environment characterized by rapid and disruptive changes, variety of customer requirements, and international competition, organizations have to acquire new technological capabilities and explore new business processes in order to stay profitable in the long run (Vanhaverbeke and Peeters, 2005). In other words, innovation that is able to meet the customer requirements and introduce products or processes has become one of the most important issues for firms. It is often linked with creating a sustainable market around the introduction of new and superior product or process (Carayannis and Gonzalez, 2003). In short, it can be concluded that firms are more competitive with innovation (De Jong and Vermuelen, 2006) or succeed in a competitive structure by creating innovation. Innovation also plays an important role in developing the economy, in expanding and sustaining the high performance of firms, in composing industrial competitiveness, in improving the standard of living, and in creating a better quality of life (Gopalakrishnan and Damanpour, 1997).

The concept of science parks originated back in the late 1950s. The idea is to provide an infrastructure of technical, logistics, administrative help that a young firm needs as it struggles to gain a foothold for its product in an increasingly competitive market (Guy, 1996). According to definition of The International Association of Science Parks (IASP) a science park is an organisation managed by specialised professionals, whose main aim is to increase the wealth of its community by promoting the culture of innovation and the competitiveness of its associated businesses and knowledge-managed institutions. To enable these goals to be met, a Science Park stimulates and manages the flow of knowledge and technology amongst universities, R&D institutions, companies and markets; it facilitates the creation and growth of innovation-based companies through incubation and spin-off processes; and provides other value-added services together with high quality space and facilities (<http://www.iasp.ws/publico/index.jsp?enl=2>). This definition shares three main elements in terms of (i) knowledge and technology transfer through interaction between universities, R&D institutions and enterprises; (ii) growth of knowledge-based and innovative companies; and (iii) creation of supportive environment (Malairaja and Zawdie, 2008). STPs are increasingly being promoted to facilitate technology transfer and regional development because they often lead to fast-growing, geographically clustered firms within industries (Tan, 2006). Consequently, STPs are major tools around the world in regional development for those areas which have excellent universities, research institutes, or a desirable living environment (Kang, 2004).

As a result of the meaning of the concepts of STP and innovation, it is generally hypothesized that STPs are important institutions for innovation and technology transfer. There are a lot of causes of this claim. First of all, linking between firms and their technology sources such as universities, laboratories, and related institutions is a necessity for the implementation of innovation. This is mostly ensured in STPs. Secondly, scientific knowledge can be transferred unproblematically from a research university to an adjacent park for development (Phillimore, 1999). Thirdly, co-location of firms in a science park, it is argued, encourages networking and collaboration, which can foster innovation. STPs thus provide an environment that assist firms to develop their technological and innovative capabilities (Malairaja and Zawdie, 2008). Finally, considerable resources are being devoted to STPs as policy instruments aimed at promoting research based industrial and innovative activity (Dettwiler et al., 2006). Consequently, it is argued that STPs contribute to fostering technological innovation and transfer and stimulating the growth of high-level economic activities (Hommen et al., 2006).

LITERATURE REVIEW

The empirical literature on science parks sits within two main groups. Studies in first focus on STPs as generally. Some of them (Shin, 2001; Appold, 2004; Phan et al., 2005; Sofouli and Vonortas, 2007) focus on different models of successful science park development and the effect of STPs on regional or national economic growth. A few studies are conducted on historical development and/or future status of a specific STP. Sutherland (2005) and Pálmai (2004) can be example for them. Surveys in second cover firms located in STPs. These surveys can purpose both examining the performance firms on STPs such as Westhead and Batstone (1999), Löfsten and Lindelöf (2005) and comparing the firms located within and outside of STPs such as Westhead (1997), Lindelöf and Löfsten (2002), Siegel et al. (2003), Löfsten and Lindelöf (2003), and Dettwiler et al. (2006).

Although there are a lot of empirical studies about STPs, there is limited empirical evidence on some dimensions of the relative performance of STPs. In the first of them, Lai and Shyu (2005) compared innovation capacity of two different science parks across the Taiwan Strait, the China Zhangjian High-Tech Park (ZJHP) and Taiwan's Hsinchu Science Industrial Park (HSIP) by ANOVA and the Kruskal-Wallis test. The researchers examined the two in the light of various factors such as 'basic research infrastructure,' 'sophisticated and demanding local

customer base,' and 'the presence of clusters instead of isolated industries,' to establish their innovation capacity. Secondly, Chen et al. (2006) analyzed the comparative performances of the six high-tech industries currently developed at Taiwan's Hsinchu Science Park by Data Envelopment Analysis (DEA) and also the Malmquist indices. Lin and Tzeng's (2009) study compared The Neihu technology park and The Hsinchu science park using the DEMATEL (Decision Making Trial and Evaluation Laboratory) technique in terms of four aspects: human resources, technology resources, invest environments and market development.

Looking the surveys which evaluate innovative capacity of industrial clusters or STPs theoretically also can be useful. First model evaluates innovation orientation of an industrial clusters was developed by Porter (1990). With the contribution of various studies, this model was expanded and it includes four critical drivers in the end. The first, factor (input) conditions, is the availability of human resources, infrastructure, and risk capital. The second driver, demand conditions, signs local or global request for product and services. The third driver, related and supporting industries, is the availability of vertically and horizontally related industries. And the last driver, context for firm strategy and rivalry, reflects competitive context (Furman et al., 2002). According to Benko's (2000) mathematical equation about technopoles, innovation ability of STPs depend on the two elements. One of them is the variable that represents the 'raw materials' of the technopole such as the research field, manufacturing or service sector companies, higher education, finance, human resources. The other is the complex function that can be summarized under myth concept of 'cross-fertilization', and whose principal influences as organization, communication, and the technopolitan culture.

Literature review shows that the role of STPs in developed and developing countries has been increasing during the last two decades. Because researches on STPs evaluation mainly cover the developed countries, there is a lack of application on STPs in the less developed countries (Bakouros et al., 2002). This study aims to partially fill this research gap in literature by examining the STPs in Turkey. When the literature is reviewed, any study compares to STPs in terms of their innovation performance is not seen except for Lai and Shyu (2005). This study also aims to partially assist to literature by measuring the relative innovation performance of STPs.

RESEARCH METHODOLOGY

Research methodology of this survey includes three basic steps. Firstly, it was determined the issues such as variable measurement and data collecting. Secondly, it was focused on sample selection. Thirdly, a linear programming model named Data Envelopment Analysis (DEA) was used to data analysis.

Variable Measurement

To explore the different innovation performance of the Turkish STPs, basic necessity is determining the variables. In order to this, it was reviewed the related literature stated in above. Thus, it was briefed the innovation indicators and they were evaluated in terms of appropriately to STPs. They were also discussed with two academicians and one STP manager. Therefore, four input and two output measures can be used for evaluating STPs were determined. Four inputs selected for the DEA analysis are: number of located firms, number of R&D employees, the support of R&D as Turkish Liras (TL), and land area as square meter (m²). Two outputs include annual sales as TL and number of new products or production methods. Data for inputs and outputs was obtained from each STP as face to face and also formal web site of Ministry of Industry and Trade of Turkey for year of 2008. Data used in the analyses was presented in Appendix.

Sample Selection

Turkey's effort to develop science parks have increased in the beginning of this century and STPs are named as "Technology Development Zones" by Ministry of Industry and Trade of Turkey created as legally on 2001. There are thirty one STPs in Turkey in the beginning of 2009. Since innovations have profitability effects over an extended period of time (Geroski et al., 1993), all active STPs in Turkey were not examined in this study. In order to make the assessment more representatives, it was carefully selected the target STPs by the legal duration of activity (more than four years). Therefore, only twenty of them (CYBERPARK, İZMİR, GOSB, İTÜ-ARI, HACETTEPE, ESKİŞEHİR, KOCAELİ, YILDIZ TEKNİK, ODTÜ, TÜBİTAK, KONYA, İSTANBUL, TRABZON, ANTALYA, ERCİYES, ÇUKUROVA, ATA, MERSİN, GÖLLER, ULUTEK) were chosen. Data was not gathered from three of them (KOCAELİ, ODTÜ, ULUTEK) due to their business policy and four of them (YILDIZ TEKNİK, İSTANBUL, TRABZON, ATA) because they have not been activated by the end of 2008. At the end, seven of them were not added the analysis and thirteen STPs are sample for this survey. This

sample size (the number of decision making units) is acceptable for a robust DEA analysis for four inputs and two outputs according to formulation of Nooreha et al. (2000).

Data Envelopment Analysis (DEA)

This study applies Data Envelopment Analysis (DEA) to compare innovation performance of thirteen STPs. It is one of the most used techniques for performance measurement and comparison. The results of the DEA were obtained from a computer program called *DEAP* Version 2.1. developed by Coelli (1996).

DEA is a linear programming based technique that provides an objective assessment of the relative efficiency of similar organizational units called as decision-making units (DMU). It has two models: CCR model and BCR model. CCR (Charnes-Cooper-Rhodes) model was proposed by Charnes et al. (1978). It is the basic DEA model which assumes constant returns to scale (CRS). The value of the efficiency can be counted by solving the following output-oriented CCR model (1). CRS model assume that all DMUs are operating at an optimal scale. However, Banker et al. (1984) suggested BCR (Banker-Charnes-Cooper) model as an extension of the CRS model to account for variable returns to scale (VRS) situations. Linear programming form of BCR model is expressed as the following (2).

$$\begin{aligned} \text{Min } g_k &= \sum_{i=1}^m v_{ik} X_{ik} & (1) \\ \text{s.t. } \sum_{i=1}^m v_{ik} X_{ij} - \sum_{r=1}^s u_{rk} Y_{rj} &\geq 0 & j=1,2,\dots,N \\ \sum_{r=1}^s u_{rk} Y_{rk} &= 1 \\ u_{rk}, v_{ik} &\geq \varepsilon & r=1,2,\dots,s \quad i=1,2,\dots,m \end{aligned}$$

$$\begin{aligned} \text{Min } g_k &= \sum_{i=1}^m v_{ik} X_{ik} + v_0 & (2) \\ \text{s.t. } \sum_{i=1}^m v_{ik} X_{ij} - \sum_{r=1}^s u_{rk} Y_{rj} + v_0 &\geq 0 & j=1,2,\dots,N \\ \sum_{r=1}^s u_{rk} Y_{rk} &= 1 \\ u_{rk}, v_{ik} &\geq \varepsilon & r=1,2,\dots,s \quad i=1,2,\dots,m \quad v_0 = \text{constant variable} \end{aligned}$$

g_k = the efficiency of DMU_k

u_{rk} = the coefficients of the weighted outputs for DMU_k

v_{ik} = the coefficients of the weighted inputs for DMU_k

Y_{rk} = the r th output value observed at DMU_k

X_{ik} = the i th input value observed at DMU_k

Y_{rj} = the r th output value observed at DMU_j

X_{ij} = the i th input value observed at DMU_j

ε = a small "non-Archimedean" constant

CRS model was used to obtain technical efficiency (TE) scores for DMUs. TE scores obtained from it can be decomposed into scale efficiency (SE) and pure technical efficiency (PTE) (Coelli, 1996). VRS model will be executed to calculate pure technical efficiency (PTE) without scale consideration. Thus, scale efficiency (SE) can be got by dividing PTE into TE. After VRS model is established and SE scores computed, the analysis can be taken to determine whether a particular DMU is experiencing increasing, constant, or decreasing returns to scale (Chen et al., 2006).

EMPIRICAL RESULTS

Basic empirical results were listed in Table 1. Second column of this table shows the TE scores by CRS DEA model. PTE scores executed from VRS DEA model are in third column. SE scores can be calculated by dividing PTE into TE, as shown in fourth column. And the fifth column of this table indicates kind of returns to scale of each DMU.

Table I: Efficiency scores and peer situation of the thirteen STPs.

DMU	Technical Efficiency (TE)	Pure Technical Efficiency (PTE)	Scale Efficiency (SE)	Returns to Scale	Peers	Peer Count
(1) CYBERPARK	1.000	1.000	1.000	CRS	(1)	2
(2) İZMİR	1.000	1.000	1.000	CRS	(2)	1
(3) GOSB	1.000	1.000	1.000	CRS	(3)	1
(4) İTÜ-ARI	1.000	1.000	1.000	CRS	(4)	2
(5) HACETTEPE	0.777	0.802	0.969	DRS	(2)-(4)-(7)-(1)	0
(6) ESKİŞEHİR	0.636	1.000	0.636	IRS	(6)	0
(7) TÜBİTAK	1.000	1.000	1.000	CRS	(7)	3
(8) KONYA	0.052	0.074	0.701	DRS	(7)-(4)	0
(9) ANTALYA	0.531	0.537	0.989	DRS	(7)-(3)-(1)	0
(10) ERCİYES	1.000	1.000	1.000	CRS	(10)	0
(11) ÇUKUROVA	0.270	1.000	0.270	IRS	(11)	0
(12) MERSİN	0.209	1.000	0.209	IRS	(12)	0
(13) GÖLLER	1.000	1.000	1.000	CRS	(13)	0
Mean	0.729	0.878	0.829			

First, we look at value of TE obtained from CRS model. Seven STPs (CYBERPARK, İZMİR, GOSB, İTÜ-ARI, TÜBİTAK, ERCİYES, and GÖLLER) have been most efficient, with TE scores of 1.000. However, six of them were inefficient with TE scores under 1.000. KONYA was the least efficient STP. The average value of TE was 0.729. All efficient STPs in terms of TE were also efficient in terms of PTE. Furthermore, STPs of ESKİŞEHİR, ÇUKUROVA, and MERSİN added to them with PTE scores of 1.000. However, KONYA was the least efficient in terms of PTE scores. The average value of PTE was 0.878.

When it is looked the SE scores, the scores of all STPs basically follow similar patterns as their TE scores. Six of thirteen STPs have SE score is under 1.000. MERSİN and ÇUKUROVA have the two least SE scores respectively. However, the average SE score was 0.829.

According to results of returns to scale, seven STPs (CYBERPARK, İZMİR, GOSB, İTÜ-ARI, TÜBİTAK, ERCİYES, and GÖLLER) have basically CRS. It indicates that these STPs have reached the optimal level of economy of scale. However, the inefficiency of an inefficient STP may arise because it is operating under IRS or DRS. Three STPs (ESKİŞEHİR, ÇUKUROVA, and MERSİN) basically were in the IRS status. These patterns show that these STPs have been expanded continuously though they have not reached the optimal scale yet. HACETTEPE, KONYA, and ANTALYA, which are not efficient, was operating under DRS. They were operating under DRS leading to the fact that any increase in inputs to these STPs results in less than proportionate increase in their outputs (Ramanathan, 2005).

After the determination of basic efficiency scores, Table 1 also gives information about peer(s) for inefficient STPs and peer count for efficient STPs. For example, HACETTEPE was considered as inefficient and İZMİR, İTÜ-ARI, TÜBİTAK, and CYBERPARK were its peers. This mean that HACETTEPE can try to emulate İZMİR, İTÜ-ARI, TÜBİTAK, and CYBERPARK (or a combination of them) in order to register the values of inputs and outputs. While TÜBİTAK formed peer to a maximum number of inefficient STPs (peer to three inefficient STPs), ERCİYES and GÖLLER were not chosen as peer for any inefficient STP.

DISCUSSION and CONCLUSIONS

This study applies DEA to evaluate the relative innovation performance of the thirteen Turkish STPs. The results of TE indicate that seven STPs, CYBERPARK, İZMİR, GOSB, İTÜ-ARI, TÜBİTAK, ERCİYES, and GÖLLER, had the best performance while other six STPs were operated relatively inefficient. According to these results of the output-oriented DEA model, inefficient STPs should increase their outputs, annual sales and number of new products/production methods focusing on their business process.

Decomposing TE scores into PTE and SE provides guidance on what can be achieved in the short and long terms. If the majority of inefficiency is due to the small size of operations, that is IRS, then the DMU will need to plan for expansion. On the other hand, PTE can usually be addressed in the short term without changing the scale of operations. Following this reasoning, we can focus six STPs that were not efficient, based on the PTE

and SE scores. The majority of inefficiency of HACETTEPE, KONYA, and ANTALYA is due to the poor performance in PTE. These three STPs had approached closely to optimal production level. They expanded rapidly and the low utilization of the inputs appears to be the key problem for them. However, low technical efficiency of ESKİŞEHİR, ÇUKUROVA, and MERSİN is attributed to low performance in SE. It also meant that STPs of ESKİŞEHİR, ÇUKUROVA, and MERSİN were not able to register unit CRS efficiency because they were not operating at the most productive scale size. According to this result, it can be concluded that the major issue of the ESKİŞEHİR, ÇUKUROVA, and MERSİN STPs is to plan for quick expansion instead of input/output transformation problem. Another finding obtained from TE and PTE scores is the fact that PTE scores were higher than TE scores for each inefficient STP. As expected, the VRS efficiencies that measure PTE excluding effects of scale of operations are larger than the corresponding CRS efficiencies (Ramanathan, 2005).

The establishment of STPs is a vital strategy employed to develop high-tech industries in many countries, including Turkey. Therefore, it is extremely important to determine how to evaluate the effectiveness of science parks (Yang et al., 2009). This study evaluating the relative innovation performance of the thirteen Turkish STPs can provide practicable objectives or strategic and managerial implications for science park authorities and firms. Science park authorities can now identify their comparative advantages and weaknesses and apply policies that leverage the parks' comparative advantages to reinforce innovative activity. One of the policy recommendations are provided to the authorities of inefficient STPs is to improve their research infrastructure. For example, it can be conducted on various implications such as giving the more support to located firms' R&D activities, guiding them to modern process management techniques and helping them to improve their marketing activities in STPs of HACETTEPE, KONYA, and ANTALYA. Strategic recommendation for authorities of inefficient STPs is to strategic alliances with other STPs. Synergetic effects of the interactions of the combination between STPs approaches can have a positive effect on increasing company and also national competitiveness. The findings about the innovation performance of STPs suggest that the parks milieu appears to have a positive impact on their firms growth as measured in terms of sales and jobs (Löfsten and Lindelöf, 2002). Firms as well might benefit from the availability of reliable performance appraisal tools to evaluate the levels of innovative productivity of STPs to guide them in choosing the location of their own research and development laboratories (Bigliardi et al., 2006). Moreover, to hinder of possible innovation failures, especially high-tech firms should make decision about the selection of their location strategically. Moreover, if it is considered that high-tech industries are characterized by high risk, and face greater technological uncertainty (Yang et al., 2009), choosing the most innovative STP is more important issue.

This research study, like a lot of the empirical researches, has many limitations that should be noted. Furthermore, it is important to discuss potential limitations before discussing the implications of our research further. One of these limitations is about input and output variables. Only three of all variables can be directly related with innovation in this study. So, to expand the model using more variables of innovation can be considered in future researches. Furthermore, the number of decision making units should be increased as a parallel of increasing research variables. The other limitation is about DEA. The original DEA results group the DMUs into two sets, efficient and inefficient. Since it is not perform full ranking (the efficiency value of 7 STPs is 1 in our study), another approach is required. The AHP/DEA model by Sinuany-Stern et al. (2000) can be used to avoid this pitfall.

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APPENDIX

DMU	Inputs				Outputs	
	number of located firms	number of R&D employees	the support of R&D (TL)	land area (m ²)	annual sales (TL)	number of new products/production methods
CYBERPARK	165	1.751	2.861.897	85.000	31.146.492	2.362
İZMİR	67	302	668.622	4.200	22.131.531	277
GOSB	77	570	289.401	17.844	331.959	511
İTÜ-ARI	66	1.690	10.112.793	31.600	158.222.988	498
HACETTEPE	73	621	2.687.827	17.665	34.817.842	400

ESKİŞEHİR	31	123	801.000	604	2.265.753	17
TÜBİTAK	28	100	21.324	3.270	21.019.703	84
KONYA	105	203	7.949.776	11.500	2.200.099	0
ANTALYA	39	165	100.000	7.950	2.871.306	86
ERCİYES	51	167	3.070	7.800	5.453.107	5
ÇUKUROVA	2	6	2.336.240	12.000	341.000	0
MERSİN	17	52	23.000	2.600	644.266	10
GÖLLER	13	18	64.000	4.755	130.000	30
<i>Mean</i>	<i>56</i>	<i>444</i>	<i>2.147.612</i>	<i>15.907</i>	<i>21.659.696</i>	<i>329</i>
<i>Std</i>	<i>44</i>	<i>597</i>	<i>3.260.481</i>	<i>22.403</i>	<i>42.912.988</i>	<i>641</i>

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A STUDY ON THE RELATIONSHIP BETWEEN INNOVATION PERFORMANCE AND COMPETITIVENESS RANKING OF SOME COUNTRIES IN THE GLOBAL ECONOMIC CRISIS PERIOD

Selma Karatepe
Inonu University, Turkey
Rabia Ece Omay
Anadolu University, Turkey
Sinem Güravşar Gökçe
Inonu University, Turkey

ABSTRACT

In this study, the relationship between the innovation, which is known as one of the components of competitiveness, and competitiveness level is examined in macro level by taking the published data of 108 countries into account. In this scope the aim of this study is to answer the question: “What kind of a statistical relationship is there between innovation performance and competitiveness ranking of the countries that are in the scope of this study?”. In the study, first, the concepts of competitiveness and innovation are defined; then the statistical relationship between innovation and competitiveness is considered. At this step, parametric and nonparametric regression methods are used. For selecting the most appropriate model, the models are compared by taking AIC (Akaike Information Criteria), deviance ...etc. criteria into account. As a result, it is found that both the parametric and nonparametric models are statistically significant; but the nonparametric regression model explains the relationship better than the parametric model.

Keywords: Innovation, competition, competitiveness, regression analysis.

INTRODUCTION

Nowadays, national economical values replaced with global values and this situation makes the competition power of countries more important in the international market. Especially in today's crisis conditions, the countries have to enhance their competitiveness in accordance with the route defined by globalism, to gain advantage. In the related literature, the components of competitiveness are stated as follows (Schwab, 2009: 45-47) 1) institutions, 2) infrastructure, 3) macroeconomic stability, 4) health and primary education, 5) higher education and training, 6) goods market efficiency, 7) labor market efficiency, 8) financial market sophistication, 9) technological readiness, 10) market size, 11) business sophistication, 12) innovation.

In this study, the relationship between competitiveness and innovation (one of competitiveness' components), whose importance has been increasing since they are shown as the key of sustainable development, will be shown by statistical methods. Thus, the aim of this study is to answer the question: “What kind of a statistical relationship is there between innovation performance and competitiveness ranking of the countries that are in the scope of this study?”

The conceptual scope of this study is limited with “innovation performance” and “competitiveness ranking” of some countries. The application scope is limited with the innovation scores published by The Boston Consulting Group in March 2009 in the report “The Innovation Imperative in Manufacturing” (Andrew, Derocco and Taylor, 2009) and the competitiveness rankings found in “The Global Competitiveness Report 2009-2010” published by World Economic Forum (Schwab, 2009). The 108 countries which are found in both reports are taken into account. The originality of the study comes from testing of the relationship between the two main variables by two different models.

Competition and Competitiveness Concepts

In today's world, companies compete in a cutthroat competition environment to create a new product, process or a new category to become the leader of that category. Competition is with its broad meaning; "a game or a contest that is played by more than one player to share a scarce resource or to gain a prize, within some specific rules and limitations without allowing any privilege or discrimination" (Türkkan, 2009). In business administration literature, competition is defined as "being able to sustain the customer's preferentiality for their companies' products and services against alternative companies" (Porter et.al., 1996: 24). Competition with these properties, is a nested concept of creativeness and technology (Tekin et.al., 2003: 83), which has "competition" and "struggle" in its structure (Dulupçu, 2001: 1). Thus companies should develop their current production factors and products continuously to sustain a competitive advantage, in this globalization age.

The meaning of competition due to the globalization differs from the competition that was created by the industry economy in the first half of the 20th century by two main reasons. The first one is; the economics literature gained an integrated competition approach because of the company-region integration with globalization. The second reason is; the importance of national identity decreased as the companies lost their national properties (Dulupçu, 2001:94) due to globalization. Today's changing environment, technology, global competitors, life style, needs and respective solutions make the competition environment more difficult (Doyle, 1998: 59). In a study executed by TÜSİAD, competitiveness is defined as "the ability of increasing the size, market ratio and profitability" of the company (TÜSİAD, 2003: 126-127). For this reason, competition bears technological development, and new technologies bear new opportunities so the markets have to produce new products to satisfy the changing demand (Türko, 2006:75). There is an important relationship between the competition strategy and innovation capacity of countries in such a competitive environment. These strategies are; aggressive competition strategy, defensive competition strategy, and imitative competition strategy (Aygen, 2006: 46-49). Especially in the global crisis period, it is mandatory to renew and develop the current production factors and products, to have an advantage in competition. So, it becomes a necessity for the country economies to use "aggressive competition strategies", which is directly related to innovation performance and which targets the product and process innovation.

Within the globalization process, in addition to these concepts that are used in this intensive competition environment, another concept "International Competitiveness Power" is being used frequently (Kibritçioğlu, 1996: 2). This power is multi-dimensional and is different than the competitiveness power of individual companies. It has a large scope, including many institutional structures, country's production structure and technological substructure, technology production capacity and dynamics, and capital of qualified labor (Çiftçi, 2004: 102). In this scope, the international commodity system, awareness level of customers, flexibility of labor market, economical stability, natural wealth and law system of the country and level of sophistication of financial market become important besides product quality, cost and price (Aktan, 1998: 81). The International Competitiveness Power, which includes all of these factors, is known as one of the most important indicators of competitiveness level of countries.

Competitiveness, which is a term related to the long term performance (Man et.al., 2002: 47) of a company/country, is also defined as the power of increasing the company/country's market share, profit, development rate and sustaining competitiveness in the long term (Tracey et.al., 1999: 492). Competitiveness for a country is the ability of increasing the country's income, employment, life quality and international market share level as well as gaining the ability to obtain international commodity balance (Dollar & Wolff, 1995: 3). To gain and sustain this ability, the countries should enhance their innovation performance, which is known as one of the components of competitiveness, especially in this ongoing global financial crisis period. In crisis periods, innovation and creativeness are known as the best method to increase the competitiveness level of countries and to survive.

In crisis periods, sustaining the competitiveness and welfare level of countries needs more than international trade and capital flow. Both in country level and regional level, countries should increase their competitiveness power instead of producing temporary solutions to compete with the actors, who increase their power incredibly in this period. In these periods, international competitiveness becomes a term that cannot be explained by only quantitative factors. In such times, to become the leader of the competition against the rapidly changing technological environment the main factor is to keep up with the technology by innovation motivation and creating dissimilarities (Gümüştekin, 2009). Innovation is an important competition tool for countries since it increases efficiency and profitability, and helps to enter new markets and/or enlarge the current market. The economies that have efficient, profitable and competitive companies, also gain competitive advantage in global

scale. Thus, innovation performance is evaluated as an important factor that guarantees the increase in employment, sustainable development, social welfare and life quality (Elçi, 2009: 62-68).

Innovation Concept

Oslo Manuel was prepared by OECD to define basic innovation concepts systematically like innovation activities, innovative company, ...etc. and create a common language about these concepts to execute an integrated science and technology policy and make international comparisons. According to this Manuel, innovation is (Oslo, 2006: 50); the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations." In other words, innovation is the process of transforming a creative idea to a marketable product (Duygulu, 2007: 15). Shortly it is creating a new business opportunity rather than invention (Burgelman, 1986: 31) or the process of transforming information into economical activity (Tang, 2006: 68-82) and social benefit (Elçi, 2009: 62-69). Finland's old Prime Minister Esko Aho, describes innovation by comparing it to R&D with the words "R&D is transforming money to information, and innovation is transforming information to money" (Yetiş, 2009: 28-35).

Innovation can be collected under four main topics, as product, process, organizational and marketing innovation (OECD, 2006:50-57). All of these types of innovation are very important for companies and countries. World Economic Forum (WEF), defines the most developed countries as the ones whose economies are driven by innovation (Arslan, 2009:128-133). The speech of Barack Obama, defining innovation as "the capital of 21th century" can be an example of this statement since he is the last president of the U.S., which is one of the most developed countries according to this classification. Similarly, Industrial Research Institute, which is the common organization of 265 successful industry company of the U.S., declared that they owe at least half of the development of the U.S. in the last 50 years, to technological innovation (Gümüş, 2009:162-167).

As it is in the U.S. example, innovation performance of the countries also shows the economical performance of them. At this point, it is important for the countries whether they are in the demanding or supplying side. The supplier countries, contribute their long term development by innovation and distribution of technology. On the other hand, demander countries' negative payment balance forces the development model of those countries (Aygen, 2006: 86-87). The high competition environment in the standard product sector, decrease the profits and in long term it causes an unsustainable structure. Thus, in today's world, the cost-focused competition strategies left their place to design and innovation focused differentiation strategies (Kaplan, 2009: 20-26). Innovation sustains advantage to countries in the international competition since it increases the profitability (Terzioğlu, 2008:17-18) by decreasing the production expenses, avoiding irrational usage of sources (Tümer, 1995: 25-50), increasing performance and quality of the product and creating product differentiation (Roy and Riedel, 1997: 538). For this reason, while competition is shown as one of the outer reasons of innovation (Özgün, 2009:152-160), it is also accepted as one of the most important factors that affects the economical development and the improvement in life standards (Tang, 2006: 68-82). Due to these properties, innovation becomes more important during the financial crisis periods. If crisis is defined as giving a break to the race, the actions taken in this period will determine the ranking when the race starts again, and success is not possible with ordinary solutions but possible only with innovative approaches in such times. So it is obvious that the lack of innovation can be fatal in crisis periods (Elçi, <http://www.inovasyondunyasi.com/icerikg.asp?id=870>).

METHODS

In this study the innovation scores given in "The Innovation Imperative in Manufacturing", which was published by The Boston Consulting Group in March 2009 and the competitiveness rankings given in "The Global Competitiveness Report 2009-2010", which was published by World Economic Forum were used. 108 countries which were found in both documents are taken into account to be able to make a comparison. Parametric and non-parametric regression analyses are used in statistical part of the study. In selecting model stage, the models are compared by taking criteria like AIC (Akaike Information Criteria), deviance ...etc. into account. In the analysis R program is used since it is a free program that can be used online and is more successful at non-parametric analysis than most of the other programs.

EMPIRICAL STUDY

In this study, the relation between innovation and competition is examined statistically by using the data set including 108 countries' innovation scores and competitiveness rankings are evaluated by using both the

parametric and nonparametric regression models and model performances are compared by taking criteria like AIC (Akaike Information Criteria), deviance ...etc. into account. In these models, innovation score is the independent variable (innov) and competitiveness ranking is the dependent variable (comp) and the effect of innovation on competitiveness is examined.

The first model that is used in the study is parametric regression model:

$$y_i = \mathbf{x}_i^T \boldsymbol{\beta} + \varepsilon_i \sim N(0, \sigma^2), i = 1, 2, \dots, n \quad (1)$$

In this model, y_i is the i^{th} dependent variable, \mathbf{x}_i^T is the design matrix \mathbf{X} 's i^{th} row, $\boldsymbol{\beta}$ is the parameter vector and ε_i is the i^{th} error term.

When the effect of variables to the dependent variable variable is more complex than a functional relationship including finite parameter, the problem can be transformed to a nonparametric problem. For the same reason, the second model used in the study is nonparametric regression model as shown below:

$$y_i = f(t_i) + \varepsilon_i, \varepsilon_i \sim N(0, \sigma^2), i = 1, 2, \dots, n \quad (2)$$

Here, $(y_i, t_i), i = 1, 2, \dots, n$, are observation data; $f(t)$, represents itself, first and second order derivation in $[a, b]$ continuous smooth unknown function; ε_i , is the i^{th} error term.

Parametric Regression Model

Parametric model shown in equation (3) is created to examine the existence of the linear effect of innovation on competitiveness:

$$comp_i = \beta_0 + \beta_1 innov_i + \varepsilon_i \quad (3)$$

The control graphs for the model (3) are given in Figure 1.

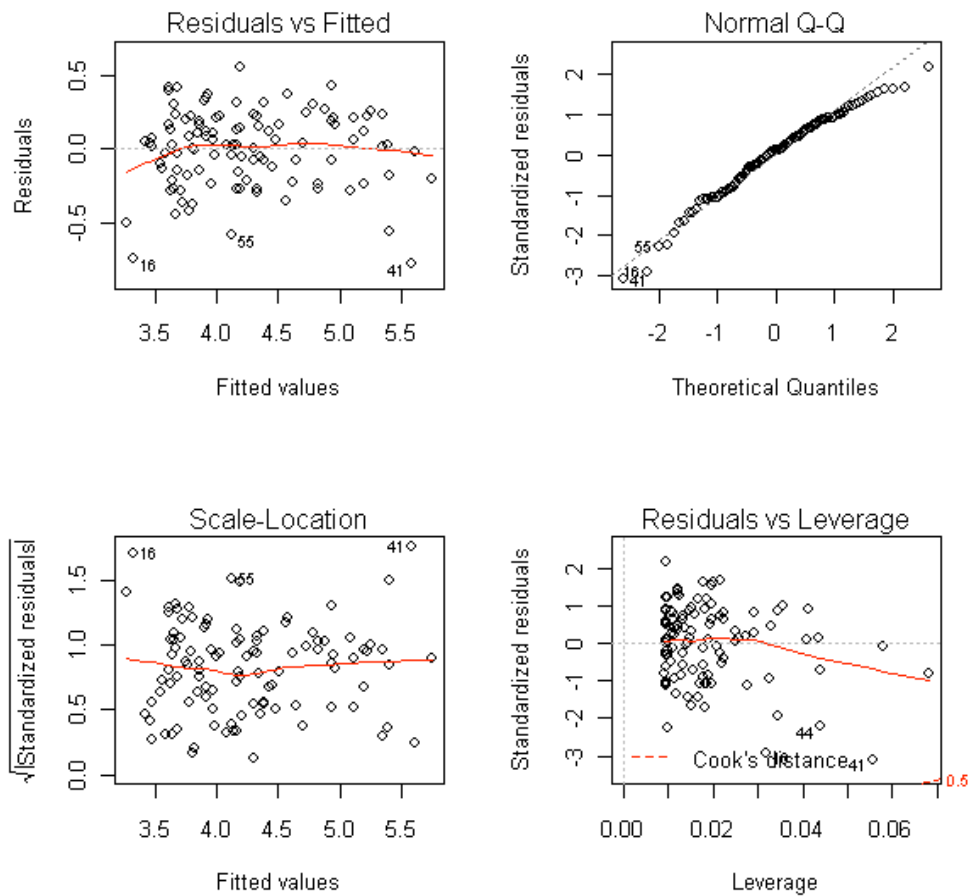


Figure 1. Control Graphs of model (3)

The graph in the upper left part shows the residuals versus fitted values. These residuals should distribute approximately equally below and above the zero line for constant variance situation. The graph in the lower left part also checks the constant variance assumption and this graph also has no problem. The upper right graph is a normal Q-Q graph. This graph shows the standardized residuals versus standard normal distribution percentage. If the residuals are normally distributed, the graph will be a straight line. Figure 1 does not fit to this description perfectly, because there is a deviation in the upper part of the graph. The lower right part of Figure 1 shows standardized residuals versus leverage. It is seen that all of the points are in acceptable limits as seen in Figure 1. The parameter forecasts and related summary of the statistics of model (3) are given in Table 1.

Table 1. Forecasts and related statistics of parametric model (3)

	Forecast	Standard Error	t-value	$\Pr(>|t|)$
Constant	4.2591	0.02497	170.58	<2e-16 ***
Innov	0.6082	0.02555	23.81	<2e-16 ***
Significance codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1				
F-value = 566.8, p-value = 2.2e-16				
$R^2_{adj} = 0.841$, Deviance = 7.135, AIC = 19.046				

When Table 1 is examined, it can be seen that the probability value of F statistics for parametric model (3) is smaller than $\alpha = 0.05$ significance level. This result shows that the model is statistically significant for $\alpha = 0.05$ level. When the significance of the parameter is examined, since the probability in the t statistics for the parameter forecast of innov variable is smaller than the significance level of $\alpha = 0.05$, it is statistically significant. The adjusted R^2 is also high ($R^2_{adj} = 0.841$).

On the other hand, in Figure 1, 16. and 41. observations attract attention. 16. observation belongs to Burundi, which has the lowest competitiveness score, and 41. observation belongs to Iceland, which has the third highest score for innovation. In the study, instead of forming the parametric model again by omitting these values, it is preferred to change the form of the model. For this aim, the first and last three countries in terms of innovation performance and competitiveness levels and their scores are given in Table 2:

Table 2. First and Last Three Countries in Terms of Innovation Performance and Competitiveness Levels

Country	Competitiveness Score	Competitiveness Rank	Innovation Score	Innovation Rank
Switzerland	5.60	1	2.23	2
United States	5.59	2	1.80	7
Singapore	5.55	3	2.45	1
Burkina Faso	3.23	106	-0.97	90
Zimbabwe	2.77	107	-1.63	108
Burundi	2.58	108	-1.54	107
Singapore	5.55	3	2.45	1
Switzerland	5.60	1	2.23	2
Iceland	4.80	23	2.17	3
Venezuela	3.48	96	-1.37	106
Burundi	2.58	108	-1.54	107
Zimbabwe	2.77	107	-1.63	108

In Table 2, it is seen that the countries having high competitiveness scores also have high innovation scores. But there is not a one to one correspondence. For example, the U.S. is in the second place for competitiveness but it is in the seventh place for innovation. Similarly, Venezuela, which is in the 96. place in competitiveness ranking, is in the 106. place for innovation. So it is obvious that the countries that have high competitiveness scores also have high innovation scores, but this does not mean necessarily that there is a parametric relationship between these two variables. Thus, in the following section nonparametric model is formed.

Nonparametric Model

The smoothness in the normal distribution assumption directed us to change the model form from parametric regression model to nonparametric. The equation (4) shows the nonparametric model:

$$comp_i = \beta_0 + f(innov_i) + \varepsilon_i \quad (4)$$

The model control graphs for model (4) are given in Figure 2.

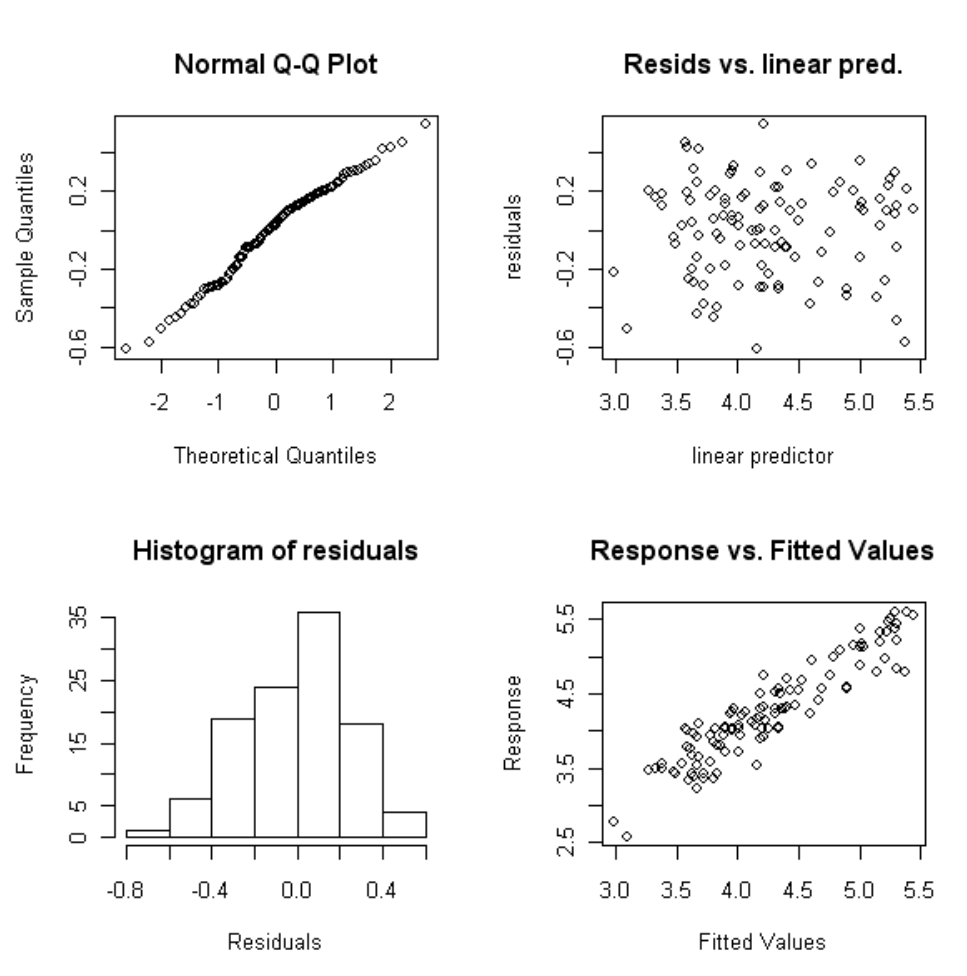


Figure 2. Control Graphs for Model (4)

When Figure 2 is examined, it can be seen that all of the graphs are meaningful. The parameter forecasts and some statistics are given in Table 3 for model (4):

Table 3. Parameter Forecasts and Some Statistics for Model (4)

Parametric Part				
	Forecast	Standard Error	t-value	$\Pr(> |t|)$
Constant	4.25074	0.02385	178.3	$<2e-16$ ***
Nonparametric Part				
	s.d.	Ref. s.d.	F-value	P-value
s(innov)	4.34	4.34	145.5	$<2e-16$ ***
Significance Codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1				
F-value = 566.8, p-value = 2.2e-16				
$R^2_{adj} = 0.855$, Deviance = 6.304515, AIC = 12.35716				

It is seen in Table 3, innov variable which is in the nonparametric part of the model has a nonparametric effect on comp variable at $\alpha = 0.05$ significance level. The forecast of s(innov) smooth function is given in Figure 3, graphically. The nonparametric effect of the variable innov can be clearly seen in this graph.

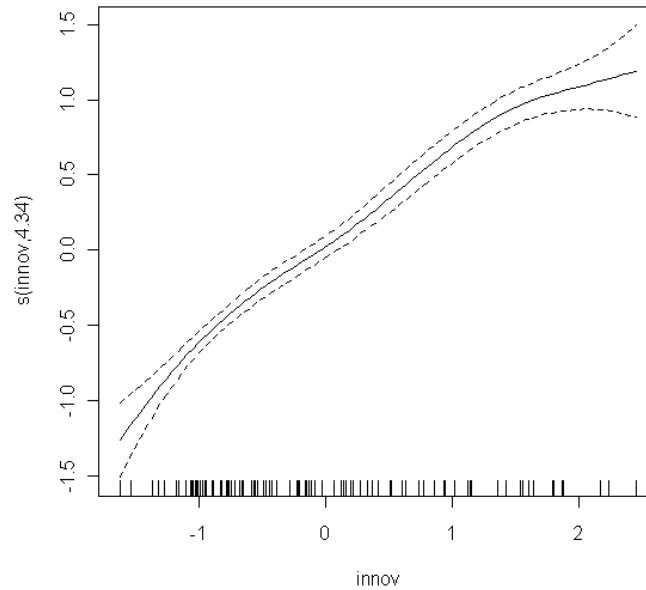


Figure 3. Smooth Function Forecast for Nonparametric Regression Model Given in Equation (4)

CONCLUSION

To compare the performances of Equation (3), parametric regression model and Equation (4), nonparametric regression model, Table 4 is formed:

Table 4. Statistics for Equation (3) and (4)

Models	AIC	Deviance	R_{adj}^2
Parametric Regression Model (Equation 3)	19.04569	7.135252	0.841
Nonparametric Regression Model (Equation 4)	12.35716	6.304515	0.855

It is seen in Table 4 that nonparametric regression model's AIC and deviance values are smaller than parametric regression model, and its adjusted R^2 value is larger. These three criteria show that nonparametric regression model (equation 4) is better than parametric regression model (equation 3).

The relevant literature and the data given in Table 2 show the existence of the relationship between the innovation and competitiveness. But this study focuses on the type of the relationship as well as the existence of it. As a result, Table 4 proves that the effect of innovation on competitiveness is not totally parametric. The classical parametric regression approaches in modeling do not take the existent nonparametric effect into consideration. In other words, for modeling the effect of innovation on competitiveness, the nonparametric regression model is found as more realistic when criteria like AIC, deviance and R_{adj}^2 are taken into account.

So, it is found out that, the innovation performances of countries have a positive effect on competitiveness level of these countries. This result supports the literature saying companies and countries, which do not give the necessary importance to R&D and innovation in the transition of "scale economy" to "variety economy", will be the victim of economical crisis (Arslan, 2009: 128-133).

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PREDICTING MICRO-LEVEL INNOVATION POTENTIAL WITH NEUROFUZZY HYBRID MODELING – A MODEL FRAMEWORK

Richard Kasa

University of Miskolc, Hungary

ABSTRACT

In this recent article I am intent on showing the findings of my model building process. The aims of my model is as follows: forecast/estimate the innovation performance of a corporation; solve statistical and methodological problems such as stability – plasticity, interpretability - precision - significance using linguistic variables; offer solution for information granulation; avoid significant loss of information observed at hard statistic methods; able to adapt to varying environment. Nevertheless, it may exploit and algorithmize the benefits of the everyday human thinking (soft calculation – fuzzy logic) and the learning and adaptation abilities of the neural systems – the synergy between the mathematized everyday human thinking and classical mathematics. Innovation management sets the economical base of my research, which is indisputably a current issue nowadays. Fuzzy technologies have become a magic word in engineering, logistics or even in medical sciences, however, it is scarcely used in the fields of social sciences. In contrast to hard calculations – where accuracy, assurance and rigidity are the primary points of view – this soft calculation method returns to the stochastic reality, which is characterized by the tolerance to inaccuracy and some doubtfulness, thus creating effective synergy between casual linguistic and classical analytical modeling.

INTRODUCTION

In my research the positivist paradigm plays the main role of the specific coherent practices of the standards of academic pragmatics (laws, theories, adaptations, tools of researches, models). This is accounted for by the peculiarity of the subject, on the other part the predominance of available positivist literature against the interpretative.

The positivist approximation can be decolonized from any ethical considerations, normative verdicts (Friedman 1953): according to Keynes it deals with what exists and not what must exist. This approach contains a system of generalizations which makes possible to describe correctly the effects of the environmental changes with such performance which depends exclusively on accuracy, scope and correspondence with the facts of the prognosis - creating an objective system like they occur in natural science (Friedman 1953). According to the positivists a theory which is unable to describe reality with numbers is inappropriate and not well reasoned (McCloskey 1986). The goal of science for the positivist research workers is to reveal the scientific regularities whereby the phenomena under investigation will be explicable and at the same time predictable (Alvesson 2000). The goal of research is to reveal the objective verity with the collation of the effects of the research worker's personality, the chosen research method and the influential factors (McCloskey 1986). Hence the analytic confines of the research is predefined and universal, the analytic model is class-based (problem granulation), the process of the research is convergent, logically traceable an objective. According to Friedman's theory (1953) the positivist science is just as objective (or transposable) as any other natural sciences. Nevertheless the fact that social sciences deal with connections between people and organizations, the researcher oneself is a part of the research - in a more direct way than in natural sciences - makes significantly difficult to reach objectivity.

Accordingly there are two potential ways offering themselves. One of them is loosening the objectivity postulations set up by positivism. This way it can be reasonable to consider how much is the greatest permissible subjectivity which is still able to grant the objectivity of the natural scientific positivist approach.

The other available way is to prepare the applied methodology to cope with handling “fuzzy”, subjective, often inaccurate and noisy dataset by objective, solid mathematical laws.

And the research worker must choose from the two possible ways, hence according to Friedman's to this very day still standing thesis (1953) every economical deduction necessarily - even genuinely or impliedly - is based

on a positivist prediction telling us the consequences of doing rather this instead of that: providing information about the consequences of a given series of actions and not determining normative verdicts.

In the course of my research I will choose the second way: try to set up such modeling methodology into economics which based on the positivism's logical basics is able to take into the object of research also subjective and inert factors beside the expected objectivity (without yielding it). These factors are either forced to be precise (along with a high bias) by the classic methodologies or easing the positivist objectivism.

METHODOLOGICAL DIFFICULTIES OF MODELING MANAGEMENT ISSUES

Natural sciences as positivist sciences contain conditionally approved, generalizations related to social/economical phenomena. With these generalizations the effects of variations which occur in the case maps can be predicted. The extension of generalization, the accuracy of approximations, the confidence level of them and the enhancement of the predictions' accuracy are discouraged not only by the boundaries of the researcher's all-time capabilities, but such circumstances as well which occur vigorously in social sciences, especially in economics - however this is not their obligate idiosyncrasy (Friedman 1953). In economics inevitably we better rely on non-controlled experiences than on controlled experiments, hence it is exceptionally hard to provide clear and unambiguous evidence to verify hypothesizes correctly.

A hypothesis can only be tested with its conclusions, predictions and realism whether it can be verified or not. This is what disturbs our methodological principles, making difficulties in testing hypothesizes and verifying them. Ergo the social scientist has to be fully aware of his methodological principles, more than others and must strictly stick to their restrictive case maps, not allowing rejecting each or more of them. In this manner a social scientist has to adapt to those few of the deductible conclusions.

Considering the above being fully aware of restrictive assumptions is elementary during the phase when we are building our model. It is also indispensable to have the wide knowledge about techniques of testing the restrictive assumptions, being familiar with the standard system of requirements of social science's models.

Modeling requirements

The essential requirements of modeling in social sciences - just like in mathematics - are **accuracy**, **significance** and **strictness**. The consistency originates in that tract of the science philosophy of mathematics in the XIX century which is called the "Revolution of strictness". The naming originates itself from Imre Lakatos, Hungarian mathematics and science philosopher (positive heuristics, the critique of naive falsificationism). Since that time we know the very precise and exact standardization which was taken over into the classic (hard) modeling of social science. Herewith arithmetization and standardization of modeling has been started. During arithmetization it was tried to reconduct the elusive terms of analysis and the theory of real numbers to the certain conception of natural numbers. Standardization meant the method of strict verification analysis.

The second group of requirements was conceived by Lotfi Zadeh - professor of mathematics at Berkeley University - in his "Fuzzy systems" theory. The first paradox states that increasing the complexity of a model (system) causes the decrease of the ability to make precise and significant conclusions. Moreover at a margin we realize that **exactitude** (arithmetical formalism) and **significance** became two criteria of the system which are respectively baring out each other.

The stability/plasticity dilemma means also a similar problem: how could we build such a model which is **plastic** enough to bear with its fast changing environment but at the same time it is also **stable** enough to reserve the previously acquired knowledge (coherence).

Similar contradiction turns up in case of interpretability - exactitude and interpretability - significance concept pairs.

Restrictive requirements

Beside the requirements above the research worker must face several restrictive requirements during the procedure of model building. The classic modeling techniques viz. often are not prepared for such problems like for instance issued by the extreme complexity of target function: what should be done when we cannot formulate

the function which is analyzed for optimum (or any other known point). Perhaps if the high statistical error couples with low significance level or we can draw only approximate inference.

Subjective system information: Applying quantitative criteria is a common assumption of classic system modeling techniques. However in social science these so objective quantitative criteria are often not given for the researcher. In these cases the established custom is to transform the qualitative criteria to quantitatives but does this ensure objectivity? Are these transformations effective? The fact social science's - especially economics' - system information are subjective is widely admitted since all of our experiences are inevitably subjective. There are no exceptions to this rule (Babbie 2001). Accordingly it can be questioned whether a scientist could be such objective as the positivist ideal assumes. Now if our system information are subjective and the applied techniques require objectivity - just like the felt desire for positivism which seems invincible - then we must force the subjective information to precise or we must chose such methodology which is able to handle system information based on subjective value judgment.

Linearity: The cogency of congruity to the requirements of linearity is very strong since in most of the cases social scientists use linear regression in modeling. Most of the economic correspondences are nonlinear either by their variables or by their parameters. The research worker must transform the nonlinear model to linear - often with high bias - since during the estimation of parameters the case maps is near insatiable. In these cases the variables must be redefined.

Homoscedasticity: Must apply to every each probability variable of the regression model, so every variable must have the same finite σ^2 variance. Ergo each probability distribution has the same standard deviation with the target variable irrespectively of explanatory variables. Therefore the covariance matrix of the deviation variables is such a scalar matrix, which has the same σ^2 values in the main diagonal. For testing homoscedasticity the Goldfeld-Quandt, the Breusch-Pagan and the White tests are appropriate.

Independency: The explanatory variables of the model must be independent of each other: none of them can be reproduced by the linear combination of others. It is reasonable how difficult it is to find an example of such a system in reality organized in pursuance of stochastic principles where belonging to each of the criteria does not necessarily exclude the chance of belonging to another. It has an effect on that but besides there are other criteria which have effect on affiliation. In addition certainly there are lots of restrictive criteria the researcher must count on and which are well detailed in the most of statistics related books.

INTELLIGENT SYSTEMS

By the end of the 20th century the conventional system modeling techniques are more and more crowded out from scientific modeling by methods based on symbolic systems and artificial intelligence. These methods were used in same context with such expressions like interpretation and arguing by the end of the 90's. It was realized that systems based on these principles proved themselves to be efficient in solving such problems which could not be solved at all or only with defining lots of notations by traditional techniques like: analysis, statistics, precise and deterministic techniques of decision support and regulation, linear programming which can be perfect when dealing with simple problems. In more complicated cases certainly I mean the non-linear or dynamic programming techniques. The case maps of these techniques are increasingly insatiable. Let us take the simple regression model where the basic notation is the linearity of the variables and the disallowance of multicollinearity. However thinking through how hard it is to measure up to these expectations in such world where everything is coherent, connected: it is hard to identify every single effect and cause, making a big distinction between them.

Thus in very few cases the traditional techniques are not reliable and also not sure to be used. A problem can happen to be so complicated that we simply cannot formulate the function which is to be analyzed to find its optimum. It can also happen that the analysis could not provide a satisfying result, we get high statistical error with low significance level or we can only draw heuristic, approximate conclusions.

“Artificial intelligence based systems” is an umbrella term of such techniques and tools which handle problem solution by the human brain's functional analogies. The word “intelligence” alludes to the ability of efficient studying, adaptive response, making right decisions and the sophisticated way of lingual communication and comprehension. Hereby such models can be created which simulate the functioning of living organisms even the human brain's. These systems will be exceedingly appropriate for problem solution, pattern recognition, lingual processing, designing and forecasting more effectively and with less restrictions than the traditional models.

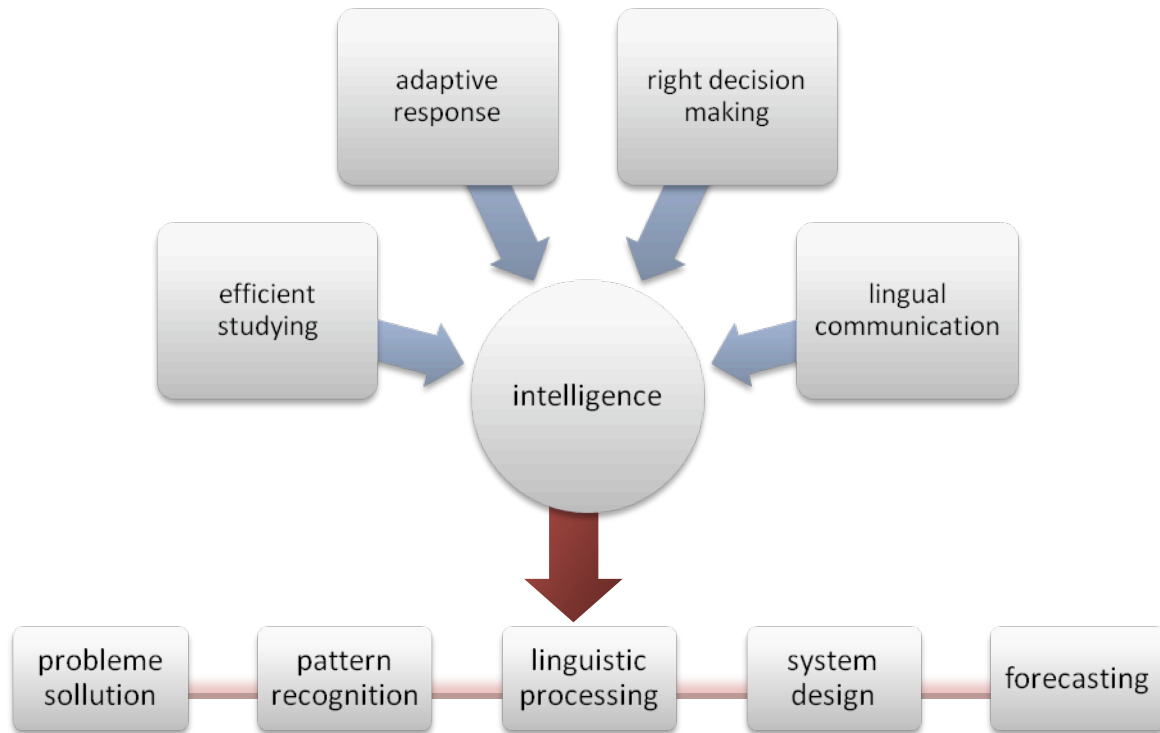


Figure 1: Intelligent systems (authors own edition)

ESTIMATION INNOVATION POTENTIAL

Modeling issues and performance objectives

Researchers tend to say that a model is not needed to develop a fuzzy controller, and this is the main advantage of the approach. However, will a proper understanding of the plant dynamics be obtained without trying to use first principles of physics to develop a mathematical model? And will a proper understanding of how to control the plant be obtained without simulation-based evaluations that also need a model? We always know roughly what process we are controlling (e.g., we know whether it is a vehicle or a nuclear reactor or a social model), and it is often possible to produce at least an approximate model. (Passino-Yurkovich, 1998) For a safety-critical application, if not a formal model is used, it is not possible to perform mathematical analysis or simulation-based evaluations. Is it wise to ignore these analytical approaches for such applications? Clearly, there will be some applications where you can simply "hack" together a controller, even fuzzy or conventional and go directly to implementation. In such a situation there is no need for a formal model of the process; however, is this type of control problem really so challenging that fuzzy control is even needed. Basically, the role of modeling in fuzzy control design is quite similar to its role in conventional control system design. In fuzzy control there is a more significant emphasis on the use of heuristics, but in many control approaches (e.g., PID control for process control) there is a similar emphasis. (Passino-Yurkovich, 1998) Basically, in fuzzy control there is a focus on the use of rules to represent how to control the plant rather than ordinary differential equations (ODE). This approach can offer some advantages in that the representation of knowledge in rules seems more lucid and natural to some people. For others, though, the use of differential equations is more clear and natural. Basically, there is simply a "language difference" between fuzzy and conventional control: ODEs are the language of conventional control, and rules are the language of fuzzy control. (Passino-Yurkovich, 1998)

Design of Controller module

According to Passino-Yurkovich fuzzy control system design essentially amounts to

- choosing the fuzzy controller inputs and outputs

- choosing the preprocessing that is needed for the controller inputs and possibly post-processing that is needed for the outputs
- designing each of the four components of the fuzzy controller

The fuzzy rule base is a central component of the fuzzy controller and it represents the “intelligence” in the fuzzy control algorithm. The rule-base is constructed so that it represents a human expert “in-the-loop.” The information that we load into the rules in the rule-base may come from some human expert (this is the place where the designer’s knowledge and experience must be correctly interpreted and organized into an appropriate set of rules). In some situations when there is no such human expert with many experiment, the control engineer will simply study the problem (perhaps using modeling and simulation) and write down a set of control rules that makes sense.

As an example, in the cruise control problem discussed above it is clear that anyone who has experience driving a car can practice regulating the speed about a desired set-point and load this information into a rule-base. For instance, one rule that a human driver may use is “If the speed is lower than the set-point, then press down further on the accelerator pedal.” (Passino-Yurkovich, 1998) Every fuzzy rule can be divided into an antecedent part (IF...) and a consequent part (THEN...), with antecedent parts describing causes and consequent parts describing consequences relevant for control action. (Bousslama-Ichikawa, 1992). A rule that would represent even more detailed information about how to regulate the speed would be “If the speed is lower than the set-point AND the speed is approaching the set-point very fast, then release the accelerator pedal by a small amount”. This second rule characterizes our knowledge about how to make sure that we do not overshoot our desired goal (the set-point speed). Generally speaking, if we load very detailed expertise into the rule-base, we enhance our chances of obtaining better performance. (Passino-Yurkovich, 1998)

Performance Evaluation

The basic reason for this is that a fuzzy controller is a nonlinear controller – so many conventional modeling, analysis (via mathematics, simulation, or experimentation), and design ideas apply directly. (Passino-Yurkovich, 1998) Since fuzzy control is a relatively new technology, it is often quite important to determine what value it has relative to conventional methods. Unfortunately, few have performed detailed comparative analyses between conventional and intelligent control that have taken into account a wide array of available conventional methods (linear, nonlinear, adaptive, etc.); fuzzy control methods (direct, adaptive, supervisory); theoretical, simulation, and experimental analyses; computational issues; and so on. Moreover, most work in fuzzy control to date has focused only on its advantages and has not taken a critical look at what possible disadvantages there could be to using it (hence the reader should be cautioned about this when reading the literature). For example, the following questions are cause for concern when you employ a strategy of gathering heuristic control knowledge.

- Will the behaviors that are observed by a human expert and used to construct the fuzzy controller include all situations that can occur due to disturbances, noise, or plant parameter variations?
- Can the human expert realistically and reliably foresee problems that could arise from closed-loop system instabilities or limit cycles?
- Will the human expert be able to effectively incorporate stability criteria and performance objectives (e.g., rise-time, overshoot, and tracking specifications) into a rule-base to ensure that reliable operation can be obtained? (Passino-Yurkovich, 1998)

These questions may seem even more troublesome (1) if the control problem involves a safety-critical environment where the failure of the control system to meet performance objectives could lead to loss of human life or an environmental disaster, or (2) if the human expert’s knowledge implemented in the fuzzy controller is somewhat inferior to that of the very experienced specialist we would expect to design the control system (different designers have different levels of expertise). Clearly, then, for some applications there is a need for a methodology to develop, implement, and evaluate fuzzy controllers to ensure that they are reliable in meeting their performance specifications. (Passino-Yurkovich, 1998)

Architecture of fuzzy model

The architecture of my fuzzy controller or fuzzy logic controller (FLC) is shown below as a block diagram. This model is composed of four main elements:

- A fuzzy rule base (a set of IF-THEN rules) which has a fuzzy logic quantification of the expert’s linguistic description of how to achieve a good control. It contains the knowledge in the form of a set or rules.

- An inference mechanism or inference engine (fuzzy inference module) which emulates the expert's judgment making in interpreting and applying knowledge about how to make predictions in desired fields.
- A fuzzification interface, which converts controller inputs into information that the inference mechanism can easily use to activate and apply rules.
- A defuzzification interface, which converts the conclusions of the interference mechanism into actual inputs of the process.

Basically we should view the fuzzy controller as an artificial decision maker that operates in a closed-loop system in real time. It gathers output data $y(t)$, compares it to the reference input $r(t)$ and then decides what the plant input $u(t)$ should be to ensure that the performance objectives will be met. (Passino-Yurkovich, 1998) To design the fuzzy controller, information must be gathered on how the artificial decision maker should act in the closed-loop system. Sometimes this information can come from a human decision maker who performs the control task, while at other times the control engineer can come to understand the dynamics of the system and write a set of rules about the forecast without outside help. These rules basically say "IF the innovation output and reference input are behaving in a certain manner, THEN the input should be some value" as mentioned above. A whole set of such "IF-THEN" rules is loaded into the rule-base, and an inference strategy is chosen, then the system is ready to be tested to see if the closed-loop specifications are met. (Passino-Yurkovich, 1998)

Fuzzy sets are used to quantify the information in the rule base, and the inference mechanism operates on fuzzy sets to produce fuzzy sets, so it must be specified, how the fuzzy system will convert its numeric inputs into linguistic outputs.

Let x (X be a linguistic variable and $T_i(x)$) be a fuzzy set associated with a linguistic value T_i . The conversion of a physical (numerical) value of x into a corresponding linguistic value by associating a membership degree, $x \in \mu T_i(x)$ is called fuzzification. The membership degree $\mu T_i(x)$ represents the fuzzy equivalent of the value of x . (Kovacic-Bogdan, 2006)

The inference mechanism has two basic tasks:

- determining the extent to which each rule is relevant to the current situation as characterized by the inputs $u_i, i = 1, 2, \dots, n$ (this is task "matching")
- drawing conclusions using the current inputs u_i and the information in the rule-base (we call this task an "inference step"). For matching note that $A_{j_1} \times A_{k_2} \times \dots \times A_{l_n}$ is the fuzzy set representing the premise of the i th rule ($j, k, \dots, l; p, q$) i (there may be more than one such rule with this premise). (Passino-Yurkovich, 1998)

The result of fuzzy inference is a fuzzy output set. On the other hand, every control task will imply the existence of crisp value at the fuzzy controller output. The procedure which extracts crisp output value from a fuzzy output set is called defuzzification.

Architecture of neural network

The neural network model is based on the following parameters which describe a neuron as shown on figure 2:

- Input connections (or inputs): x_1, x_2, \dots, x_n . There are weights bound to the input connections: w_1, w_2, \dots, w_n ; one input to the neuron, called a bias, has a constant value of 1 and is usually represented as a separate input, say x_0 .
- Input function f , calculates the aggregated net input signal to the neuron $u = f(x, w)$, where x and w are the input and weight vectors correspondingly; f is usually the summation function:
- An activation (signal) function s calculates the activation level of the neuron $a = s(u)$.
- An output function calculates the output signal value emitted through the output (the axon) of the neuron: $o = g(a)$; the output signal is usually assumed to be equal to the activation level of the neuron, that is, $o = a$. (Kasabov, 1998)

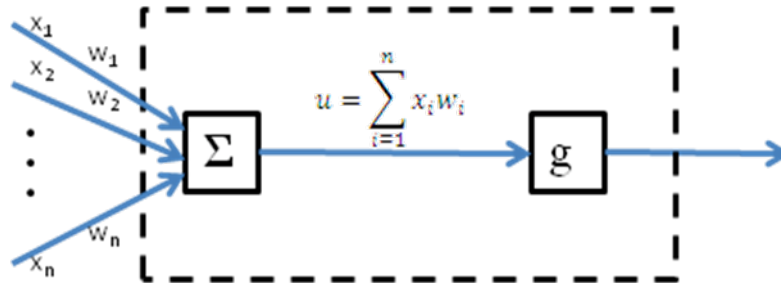


Figure 2: Artificial neuron (authors own edition)

An artificial neural network (or simply neural network) is a computational model defined by four parameters:

- Type of neurons (also called nodes, as a neural network resembles a graph)
- Connectionist architecture—the organization of the connections between neurons
- Learning algorithm
- Recall algorithm

The functioning of the neural network, when an input vector x is supplied, can be viewed as a mapping function $F: X \rightarrow Y$, where X is the input state space (domain) and Y is the output state space (range) of the network. The network simply maps input vectors $x \in X$ into output vectors $y \in Y$ through the "filter" of the weights, that is, $y = F(x) = s(W, x)$, where W is the connection weight matrix. The functioning of a network is usually based on vector-matrix real-number calculations. The weight matrix represents the "knowledge", the long-term memory, of the system, while the activation of the neurons represents the current state, the short-term memory.

The most attractive characteristic of neural networks is their ability to learn. Learning makes possible modification of behavior in response to the environment. A neural network is trained so that application of a set X of input vectors produces the desired (or at least a consistent) set of output vectors Y , or the network learns about internal characteristics and structures of data from a set X . The set X used for training a network is called a training set. The elements x of this set X are called training examples. The training process is reflected in changing the connection weights of the network. During training, the network weights should gradually converge to values such that each input vector x from the set training data causes a desired output vector y produced by the network. Learning occurs if after supplying a training example, a change in at least one synaptic weight takes place. (Kasabov, 1998)

The training examples comprise input vectors x_i and the desired output vectors o_i . Training is performed until the neural network "learns" to associate each x_i input vector to its corresponding and desired output vector o_i . For example, a neural network can learn to approximate a function $y=f(x)$ represented by a set of training examples (x, y) . It encodes the examples in its internal structure.

Hybrid modeling

The combined fuzzy-neuro system uses the advantages of both fuzzy model and neural network model. The output from the controlled process of the fuzzy controller is the input of the supervised neural network through the system's error detection mechanism. At the same time, the outputs of the neural network are the crisp inputs of the fuzzy controller. These inputs are modified by the feedback mechanism. In this sense there are two circles of the model: one for the neuro-fuzzy forecasting process mechanism, which produces outputs for the model, and the other feedback circle, intended to reduce the statistical errors of the weights of the neural network.

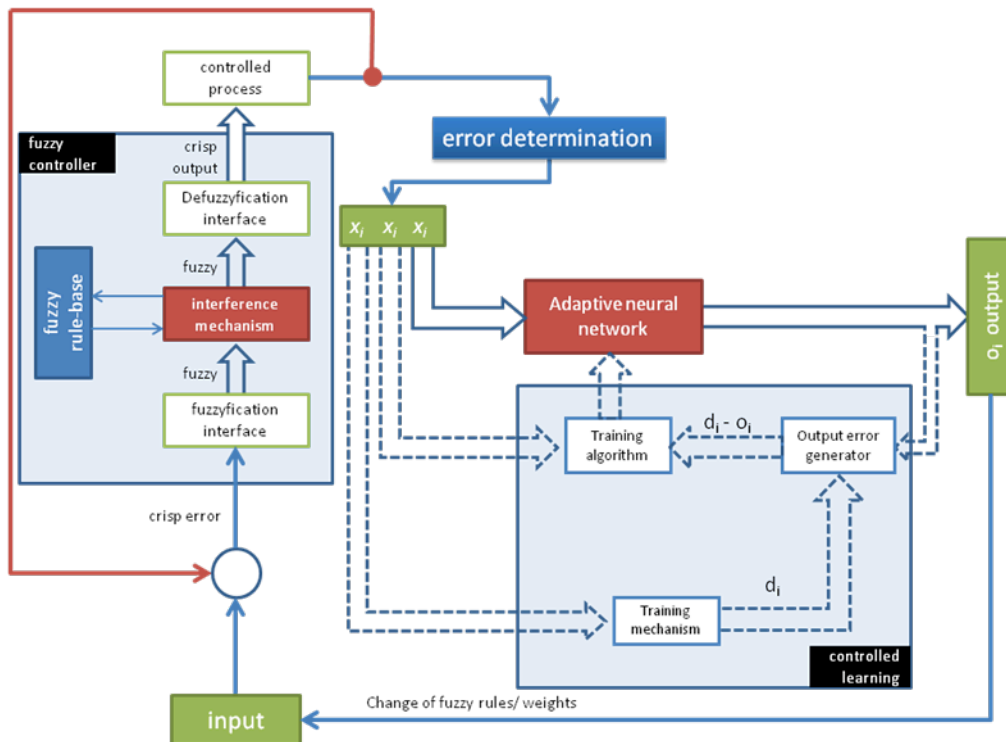


Figure 3: Block diagram of hybrid system (authors own edition)

ESTIMATION PARAMETERS

When defining the variables of the model we must separate them into two groups: on the one part the explanatory variables whereby we estimate and on the other hand the dependent (explained) variable which is estimated by the model. Each and every variable is a result of aggregation by factor analysis. The setup of each factor is done by the following variables:

F1a	Motivation	Creativity inspiration, Remuneration, Change seeking, Change adaptation
F1b	Socialization	Group work, Innovation culture, Competitiveness, Communication, Ratio of experts, Age
F1c	Action	Researches, Wide range of products, Modern products, improving quality, Adaptation of modern/efficient processes, Stepping to new markets, Increasing market share, Achieving higher elasticity in production, Improving work safety, Lowering the specific labor cost, Lowering the specific material cost, Meeting the rules, fulfilling standards
F1d	Adaptation	Problem solving, Brainstorming, Assimilation with tasks
F2	Strategy	Long term company strategy, Market improvement strategy, Product improvement strategy, Innovation strategy, Reputation of strategies, Assimilation of strategies, Fitting of strategies
F3	Diffusion	Company inside the group, Suppliers, Customers, Competitors, External experts, research centers, Universities, Outsourcing, Expositions, Conferences, Patent examination
F4	Information	Efficiency of information, Effectiveness of information, Controlling, IT, Commercial sources, Marketing, Market leverage effect
F5	Resources	Revenue, R & D expenses, Human resources, Creativity, Value added
F6	Technology	Modernity, Incidence, Efficiency, Monitoring, Pushing effect, Adaptation of technologies, Supplier companies, Production-intensive company, Research-intensive company
F7: Y	Achievements	Amount of released publications, Number of protected patents, Number of know-hows, licenses, Marketization, Number of company innovations, Commitment, Competitiveness

F1a-F1d:
Organization

SUMMARY

Hereby I schemed the reasonableness of necessity of a neuralized fuzzy system in aspect of positivist scientific theory. I presented the procedure of building the system and the particularities of its operation. I have also defined the variables which can be used to estimate effectively the innovation potential at company level.

Although the data of the primary research are just being evaluated - so I cannot provide any consequences about the functioning of the model at this stage - but it is clear by now that the model is appropriate for solving scientific theoretical and methodological problems, thus describing reality more precisely.

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ISTANBUL: A CANDIDATE CITY FOR THE GLOBAL INNOVATION LEAGUE?

Dilek Çetindamar
Sabancı University, Turkey

Ayşe Günsel and Sema Türkkantos
Gebze Institute of Technology, Turkey

ABSTRACT

The main objective of this paper is to explore potential of Istanbul as a city region in the innovation league. There is a growing awareness amongst regional authorities that the economic growth and competitiveness of their cities depends largely on the capacity of indigenous firms to innovate. This paper mainly analyzes the technological and innovation infrastructure of Istanbul and compares Istanbul with some successful global cities. By situating the city in the national and global context, it shows that Istanbul has gained a substantial lead in developing an innovation environment but it still lacks global network and linkages as well as weak in terms of research institutions. Finally, some of key challenges Istanbul face in becoming a global city is pointed out.

Keywords: *Istanbul, knowledge economy, innovation, regional innovation systems, city regions.*

INTRODUCTION

The rise of the knowledge based economy highlights the crucial role technological innovation plays in economic development (Castells, 2000). The major components of knowledge-based economy include: an economic and institutional regime that provides incentives for the effective use of existing knowledge, the creation of new knowledge, and entrepreneurship; an educated and skilled workforce that can create and use knowledge; a dynamic information and networking infrastructure in order to facilitate the efficient communication, dissemination, and processing of information; and an effective innovation system to tap into global knowledge and adapt it to local needs, and ultimately create new knowledge (Wu, 2007). Thus the territorial aspect of innovation as cities and regions becomes more and more important (Crescenzi, 2005)

These regions/cities are expanding vigorously, presenting challenges to researchers and policy makers (Scott et al., 2001). Establishing knowledge-based infrastructures in regions or cities becomes as one of the main tasks for governments in transforming their economies. Accordingly academic interest in clusters, regions and big cities is increased (Faulconbridge, 2007)

The goal of this paper is to explore the potential of Istanbul in becoming an innovative city in the global knowledge economy. The paper has six sections. After this short introduction, theories on innovation systems will be briefly mentioned. Section 3 will focus on studies on cities, followed with the analysis of technological and innovation infrastructure of Istanbul. Section 5 will attempt to compare Istanbul with some successful global cities. The final section, concluding remarks, will lay some thoughts on the challenges Istanbul faces in becoming a global city.

THEORETICAL BACKGROUND

Innovation is one of the key determinants of economic growth (Jolly, 2008; Crescenzi, 2005). In other words innovation itself is a strong competitive strategy to achieve world-class manufacturing status and compete effectively in global networks and markets (Prajogo et al., 2007). The quest for mutual proximity on the part of all manner of economic agents at the present time is in significant degree a strategic response to heightened economic competition which has placed a premium on learning and innovation (Scott et al., 2001). That is

why in 2000, the conclusions of the presidency of the Lisbon European Council established the goal of making the European Union (EU) the ‘most innovative and dynamic knowledge based economy in the world’, known as the ‘Lisbon Strategy’ (Crescenzi et al., 2007).

As a collective learning and socially embedded process, innovation is crucially dependent on tacit knowledge and untraded interdependencies (Crescenzi, 2005). Successful innovation requires not only brilliant scientists; but also everyone from top management to employees in its R&D, finance, production and marketing divisions. It involves high-quality decision-making, long-range planning, motivation and management techniques and co-ordination. Accordingly, the innovation performance of a firm is determined not only by “hard” factors such as R&D manpower and R&D investment, but also by certain “soft” factors such as management practices and governance structures (Fu, 2008). Therefore as stated in the Lisbon strategy, innovations are not generated just by actors being individuals, organizations or institutions but also by complex patterns of interactions between them these actors. Actors and interactions among them form the basis of innovation systems that generate, adopt, and transform innovations into the context (Almeida et al., 2008). Innovation systems are sources of learning and innovation for nations and regions (Berger and Diez, 2006).

Networking/collaboration with local firms and organizations has always played a major role in economic theories (Faulconbridge, 2007). There has been a rapidly growing literature on this topic during the 1990s (Freeman, 2001). A basic idea of the literature on innovation systems is that it is the entire productive system rather than the firm itself that should be considered in order to understand differentiated business performance (Eraydın and Koroğlu, 2005).

Innovation systems are classified in many dimensions. For example, at the macro level, there is national innovation system (NIS). NIS is a set of institutions whose interactions determine the innovative performance of national firms. It is composed of elements and relationships which interact in the production, diffusion and use of new and economically useful knowledge (Godin, 2007). The NIS approach is theoretically rooted in institutional and evolutionary economics (Berger and Diez, 2006).

Another level where innovation systems are built upon is regions or clusters, whereby the borders of regions differ from a city to cross-border geographical units such as Kyongbuk-Taegu in South Korea and Santa Catharina in Brazil (Crescenzi, 2005). While much of innovation literature insists on the central importance of national systems; sub-national entities, such as provinces, industrial districts, cities or “Silicon Valleys” are conceived as more important than the nation-state (Freeman, 2001). Kyongbuk-Taegu in South Korea and Santa Catarina in Brazil are a few examples of successful innovative regions (Cooke, 2001).

Considering that territories with their social, cultural, and institutional realm are fundamental for successful innovation, some researchers claimed the end of the nation state and the rise of the regions (Ohmae, 1995). Even though these claims seemed exaggerated, they have stimulated strong research interest in various regions. In the field of innovation research, this led to the formulation of the concept of ‘Regional Systems of Innovation’ (RSI) (Berger and Diez, 2006; Crescenzi, 2005).

Often four criteria are mentioned to define a region: (I) a region must not have a determinate size; (II) it is homogeneous in terms of specific criteria; (III) it can be distinguished from bordering areas by a particular kind of association of related features; and (IV) it possesses some kind of internal cohesion (Cooke, 2001).

To define a region from an economic perspective, sometimes the concept of industrial cluster is used (Porter 1998). Clusters can be characterized as a dense network of economic actors, who work together very closely and who have intensive exchange relationships. On the other hand regional cluster defined as a spatial and industrial concentration of firms (Bresnahan et al., 2001). Indeed RSI is a cluster; dedicated to create inventions in which there is high geographic concentration. However regions can have more than one economic cluster. For instance, Silicon Valley is a large complex including ICT and biotechnology clusters, if we define it economically (Niosi and Bonik, 2005).

Proximity plays a major role on networks and interaction density within RIS context; this fact is in general attributed to the tacit nature of a relevant part of knowledge. Tacit knowledge “is best shared through face-to-face interactions between partners who already share some basic commonalities: the same language, common “codes” of communication and shared conventions and norms...” (Asheim and Gertler, 2005: 293). Although knowledge is a non-rival public production asset, which can generate positive externalities or

spillovers to others; knowledge spillovers are geographically or regionally localized (Fu, 2008). As a set of economic, political and institutional relationships within a given geographical area, RSI (Asheim and Coenen, 2005; Niosi and Banik, 2005):

- I. creates dispersed interactions among heterogeneous agents
- II. generates a collective and interactive learning process
- III. offers a regional production structure or knowledge exploitation subsystem which consists mainly of firms, especially where these display clustering tendencies
- IV. provides a supportive infrastructure or knowledge generation subsystem which consists of externalities and market channels such as public and private research laboratories, universities and colleges, technology transfer agencies, vocational training organizations and foreign direct investment (FDI)
- V. leads to the rapid diffusion of knowledge and best practice.

Eraydın and Koroğlu (2005) highlight the additional benefits of a RIS: unique labor market conditions, flexibility through specialization and inter-firm co-operation, collaboration instead of competition, and subcontracting relations among vertically disintegrated firms specialized in different stages of production.

As it attracts FDI; labor market conditions is perhaps the most important feature of RSI. Foreign direct investment contributes to regional learning and innovation in four ways. First, research and development (R&D) and other forms of innovation created by foreign firms and R&D labs of multinational enterprises (MNEs) raise the innovation outputs in the region directly. Second, spillovers emanating from foreign innovation activities may affect the innovation performance of small and medium size enterprises (SMEs) in the region in which they operate. Third, FDI may have an effect on regional innovation capacity through competition effect. Finally, in addition to greater R&D investments by MNEs and their affiliates, FDI may contribute to regional innovation capabilities by means of advanced practices and experiences in innovation management and thus greater efficiency in innovation. However, it is important to remind that host regions effectively benefit from the advanced technology embedded in FDI if and only if the region has capability to identify, assimilate and develop useful external knowledge (Fu, 2008).

CITIES

Cities have been always important since the beginning of civilization. Even though Adam Smith's book was entitled "The Wealth of Nations" and his main concern was to investigate "the different progress of opulence in different nations", he nonetheless included a long discussion part of "The rise and progress of cities and towns since the fall of the Roman Empire" (Freeman, 2001). Globalization has affected the social and spatial changes in large cities and city regions. The concept of city-regions can be traced back to the "world cities" idea of Hall (1966) and to the "global cities" idea of Sassen (1991). The major cities all over the world are now facing pressures to rethink the impacts of policies for competitiveness and integration with the global economy on their socio-spatial structures, after a period of entrepreneurial policies shaped by the notions of globalization (Eraydın, 2008).

City regions are major drivers in the global economy and they are themselves transformed by globalizing forces. Özdemir (2002) observes the technology based transformation economy, in which finance and producer services have an important share. City centers have become the key sites where the results of these transformations are apparent. Moreover as production becomes more science based, advantages such as developed research infrastructure, a highly qualified workforce or an innovative culture are becoming more important than natural resources, which means that a supportive environment for innovative companies can deliberately be created (Cooke, 2001).

Eraydın and Koroğlu (2005) also states that labor market conditions receives special attention in the context of clusters and innovation systems. Knowledgeable and qualified people are not evenly distributed in geographic area; they are placing greater demands on the city infrastructures that deliver vital services such as transportation, healthcare, education and public safety. Adding to the strain are ever-changing public demands for better education, greener programs, accessible government, affordable housing and more options for senior citizens. For example a report from the IBM Institute for Business Value titled as "A Vision of Smarter Cities" declares that cities symbolize and centralize so many aspects of what will make for a better education, better healthcare, better water and energy use, better public safety, better transportation, and better government and so on. In the report, Vancouver (Canada), Melbourne (Australia) and Vienna (Austria) is ranked as the smartest cities in World. Accordingly these cities appear as important centers for qualified labour and migration.

In a multi-region open economy with high levels of population mobility, the map of human capital is being restructured by labor migration (Storper and Scott, 2009). For instance, the proportion of migrants in the population of the three provincial-level cities of China (i.e. Beijing, Shanghai, and Guangzhou) is around 17 to 20 percent of the total population (Cartier et al., 2005). Besides, human capital is in part created by means of education, training, on-the-job learning and broad processes of socialization. Human capital may also be created via interactions between appropriately matched or complementary individuals. In turn, the resulting stock of human capital of a city affects its economic performance in many ways (Storper and Scott, 2009).

Another reason why the highly skilled labor appears in large cities is that skilled workers may be more productive when surrounded by their peers (Noise and Blank, 2005). Thus, 'cities exist in part to facilitate learning between individuals who come into contact with one another' leading in turn to an urban wage premium (Storper and Scott, 2009). This constitutes another aspect of cities as innovation centers.

There are numerous studies showing how regions and cities outperform in terms of growth to their counterparts. Eraydın (2008) asserts that territorial cities have grown faster and have been able to increase their relative shares in the world economy. Niosi and Banik's (2005) study also shows that companies located in three largest provinces (Toronto, Montreal, and Vancouver) of Canada definitely perform better. Cooke (2001) discusses the successful regions of Massachusetts and California in creating their biotechnology and ICT clusters as well as Hollywood, Los Angeles and 'Silicon Alley' in New York in developing new media. Faulconbridge (2007) categorizes New York and London as 'learning and knowledge intensive cities'.

In fact it is the globalization; technologic transformation and migration of labor that result with the rise of the city regions. Moreover information technologies allow the formation of new forms of social organization and social interaction along electronically based information networks within city regions (Castells, 2000). Accordingly different types of city regions with different characteristics appear. Also on the basis of the intensity of their technology production, as measured by the R&D intensity, of technology use, intangible investments and human capital, industry categorization under the auspices of the OECD takes part in these different city region definitions and categorizations. Based on her comprehensive literature review, Eraydın (2008) categorizes the city territories into six dimensions as shown in Table 1. There are global cities, learning regions, informational cities, traditional industrial districts, high technology industrial districts, challenging cities and platforms of cheap labor. A brief definition of each category is given below:

- I. Global cities: Global cities emphasize increasing attraction of cities due to increasing global functions, massive migration, and employment for both skilled and unskilled workers. As mentioned above the labor force is an important competitive asset as its size, characteristics and quality determine the level of competitiveness of a certain city and its integration within the global economy.
- II. Learning regions and informational cities: This kind of city regions stresses increasing knowledge and innovation capacity, specialization, increasing opportunities for skilled manpower and people with talents.
- III. Traditional industrial districts: Main features include production for external markets, increasing flexibilities and the use of social capital, networking among local actors and increasing employment opportunities.
- IV. High technology industrial districts: Technological capabilities and innovation become the basis of production and thus require highly skilled manpower. There is specialization in high-tech activities.
- V. Challenging cities: These cities integrate into the global economy by both traditional and new/high-technology economic activities. Challenging cities use mixed strategies.
- VI. Platforms of cheap labor: This kind of city regions involves integration in the global economy with cheap labor resources. There are increasing employment opportunities in low-wage and informal work.

Eraydın's classification concerning the city regions is a useful guide to determine the current position of a city and to make a roadmap for future. Similar to Shanghai that is a leading production, commercial and financial center, Istanbul is economic and technological locomotive of Turkey. The following section analyzes Istanbul on the basis of Eraydın's classification.

Table 1. City Types and their Sources of Competitiveness, Economic Growth and Restructuring

	The sources of competitiveness	Economic growth and restructuring
<i>Integration with command functions</i>		
Global cities	The intersection of different types of global networks Global command functions Centres of capital accumulation Concentration of specialized producer services	Increase in high value-added services; banking and finance, legal and accountancy services, consultancy, telecommunications, R&D and higher education
<i>Territories integrating with knowledge and innovation capacity</i>		
Learning regions	Medium of interaction for knowledge creation Learning infrastructure Institutions and networks that facilitate the circulation of ideas and creative knowledge	Specialisation in new fields and competitive activities Increasing relations between business and universities
Informational cities	Acting as a source of information and dissemination of information to the whole world by global Networks	Increasing importance of storage and dissemination of information Building new external networks
<i>Integrating with production capacities</i>		
Traditional industrial districts	Flexible production organization, local production networking, collaborative relations Social networks and social capital Quick response to changing demand conditions	Increasing specialization and clustering Innovativeness based on both tacit and codified knowledge
<i>Integration with technological capabilities</i>		
High-technology industrial districts Technopolis, technoparks	Infrastructure that facilitates innovation Proximity to R&D centres Clusters of high-technology firms Networks of knowledge dissemination and creation Availability of human capital	Development of innovation-oriented business Following successful firms Labor market recruitment and knowledge carriers
<i>Integration with both traditional and new functions</i>		
Challenging cities	Dualistic economic structure and labor market Sustained importance of mature and labor-intensive manufacturing	Increase in new (high-tech) manufacturing activities and producer services
<i>Integration with cheap labor and natural resources</i>		
Platforms of cheap labor	Cheap and abundant labor	Expansion of the economy Rise in foreign direct investment

Source: Adopted from Eraydın (2008)

ISTANBUL

Istanbul is the biggest city in Turkey in terms of economic development and urban population growth. It has always been the centre of the national economy and, at the same time, an important international node within a large hinterland extending from Eastern Europe to the Middle East and from the Black Sea region towards central Asia. Moreover, after the disintegration of the Soviet Union in 1989, Istanbul has become the centre of the large hinterland formed by the countries bordering the Balkans, Caucasia, Turkic Republics, Middle East and the Black Sea (Berkoz and Eyüboğlu, 2007). But which competitive assets make Istanbul attractive for becoming an innovative city? A brief background on Istanbul's competitive assets will consist of five dimensions: labor force, industrial and trade structure, FDI, technological infrastructure, and firm level technological competence.

Labor Force

The total population of Istanbul was seven million in 1990 and 12.7 million in 2008, the most crowded city among 81 cities in Turkey (TÜİK, 2008). This large population is highly diversified and well educated: 93

percent of its population is literate and almost 12 per cent of its graduates are university-graduates. 10 per cent of all university students in Turkey are in Istanbul. In addition, Istanbul has attracted migrants from several countries as well as from different parts of Turkey. On the average, the city intakes 400 thousand people every year (TÜİK, 2000). The migration of scientific and technical personnel from different regions of Turkey and abroad, on the other hand, made the city attractive to foreign investors due to its supply of qualified labor. Considering that the main characteristics of cities is the availability of qualified labor (Niosi and Blank, 2005), Istanbul has a strong asset.

The first study that compares the competitiveness of Turkish cities is conducted in 2007 to create a Turkish urban competitiveness index (EDAM, 2009). EDAM uses six dimensions in measuring the competitiveness of cities in Turkey as follows: I) Human capital, II) Physical infrastructure, III) Social capital, IV) Economic efficiency index, V) Labor market index, VI) Creative capital index. Among all Turkish cities, except creative capital index, Istanbul is ranked as the first city.

Following EDAM, International Competitiveness Research Association (URAK) created another Turkish urban competitiveness index in 2008 using four major criteria; human capital index, branding capability and innovation index, commercial ability and production potential index and accessibility index (URAK, 2008). Except human capital index, Istanbul is ranked as the first city among all Turkish cities.

It is interesting to see Istanbul as the second city following Ankara in human capital index (URAK) or in creative capital city (EDAM). Both indexes have similar components such as technical staff per 1000 people, the ratio of R&D expenditure over R&D output for public, the ratio of R&D expenditure over R&D output for private sector, academic publishing per head.

Istanbul outperforms other cities in Turkey, however in order to determine the potential of Istanbul on a global innovation league, it is necessary to explore where Istanbul is ranked among global cities. In Beaverstock et al.'s (1999) study in terms of world-cities with values ranging from 1 to 12; Istanbul is a world city with 4 points along with other international cities of Atlanta, Barcelona, Berlin, Buenos Aires, Budapest, Copenhagen, and Hamburg. Indeed Beaverstock et al.'s (1999) study is a remarkable research investigating cities' global capacity or world cityness using four basic criteria:

- I. Cosmopolitan characteristics and the multinational corporate economy
- II. World cities and the new international division of labor
- III. The internationalization, concentration and intensity of producer services
- IV. World cities as international financial centers.

Furthermore the world city index of Beaverstock et al.'s (1999) is updated by Globalization and World Cities Study Group and Network in 2008. Istanbul seems to go up into a higher class from gamma world city with 4 points to alpha world city + a higher degree than Los Angeles.

To find the relative position of Istanbul within the world cities, Taylor's (2001, 2003) comprehensive research would also be a useful guide. In his study concerning the global city networks, Taylor (2001) collected data from 100 global service firms across 316 cities world wide. Global service firms are defined as having offices in at least 15 different cities with at least one in each of the prime globalization arenas; northern America, Western Europe, and Pacific Asia. Firms so identified were from the following sectors: 18 in accountancy, 15 in advertising, 23 in banking/finance, 16 in law, 11 in insurance, and 17 in management consultancy. Service values were allocated to cities in the range of 0 to 5 where '0' indicates no presence of a firm in that city and '5' indicates the city to be the most important location for that firm (i.e. its headquarters). From this data, the global network connectivity of a city is computed from the products of its service value for each firm with that firm's service value for each other city. Summing these products over all firms in a city produces a gross value of its global network connectivity. Istanbul is ranked as the 35th city in global network connectivity in 2000 (Taylor, 2001) and 29th in 2008 (Derruder et al, 2009).

Industrial and Trade Structure

Istanbul generates 27,5 per cent of total Turkish value added and its gross domestic product (PPP) per capita is 10352 dollars in 2008 that is nearly 50 per cent higher than the corresponding value for the country (TÜİK,2010). Istanbul creates 3.3 million jobs, 15 per cent of total employment in Turkey. Agricultural employment is almost non-existent (0.35 % of total agricultural employment in Turkey). Industry is the main employee sector, corresponding 28 per cent of total Turkish industrial employment; while services constitute

20 per cent of employment in services sector in Turkey (KOSGEB, 2005). In terms of both services and industrial employment, Istanbul ranks first among 81 cities.

Manufacturing industry still generates almost one-third of employment opportunities in Istanbul, although there has been a slight decrease in this ratio from 1980 to 2000 (in 1980 it was 35.8 per cent), which indicates the importance of the manufacturing industry in the economic base of Istanbul, like many European cities (Kazepov, 2005). The industrial structure of Istanbul lays in mature industries such as textile, mechanical and chemical industry. According to TOBB reports for Istanbul (2005, www.tobb.org.tr), textile with 275 thousand employees ranks first; and it is followed by mechanical industry with 146 thousand employees, chemical industry with 78 thousand employees. Textile is the main sector, corresponding 34 per cent of total Turkish textile employment. The employment regarding the scope of business are given below

Table 2. Employment regarding the scope of business.

SCOPE OF BUSINESS	ISTANBUL	TURKEY	ISTANBUL (%)
Food Industry	42.220	382.180	11,05
Textile Industry	274.682	807.610	34,02
Furniture Industry	10.024	75.513	13,31
Paper and Printing Industry	23.891	65.854	36,28
Chemical Industry	78.480	270.268	29,04
Non Metal Industry	16.327	138.251	11,81
Metal Industry	19.445	106.387	18,28
Mechanical Industry	146.036	496.764	29,40
Other Manufacturing Industry	15.959	24.494	65,15
TOTAL	627.064	2.367.321	26.049

Source: Adapted from TOBB, 2005 (www.tobb.org.tr)

Among service sectors, Istanbul is the leading city in banking and accounting sectors. As Taylor (2003) declares that Istanbul ranks as 21st city at banking network connectivity in the whole world. Istanbul provides 45 per cent of total Turkish bank deposits and uses 43 per cent of total Turkish bank credits. Moreover Istanbul has the potential to be banking and finance center not only for Turkey but also for the region. There are five main topics to consider a city as a finance center: the size of the economy, qualified labor, legal regulations, the development of banking and finance sector, and physical infrastructure.

There are various support institutions in Turkey to support industrial production. Istanbul has eight active industrial zones out of 258 in Turkey and one more industrial zone is under construction (TOBB, 2009). Moreover Istanbul has nine small industrial areas out of 439, which host 2.272 SMEs with a total employment of 21 thousand.

Exports from Istanbul have risen from US\$18 billion in 2001 up to US\$35.9 billion in 2004, which represents approximately a 2 times increase in 4 years. On the other hand imports from Istanbul have risen from US\$ 22 billion in 2001 up to US\$ 60 billion in 2004, which represents approximately a 3 times increase in 4 years (TÜİK, 2008). Istanbul generates 43,2 % of Turkish exports mainly based on manufacturing industry (45,8 per cent of Istanbul's total exports) and 62.8 % of imports again mainly based on manufacturing industry (49,07 per cent of Istanbul's total imports) (Berköz and Eyüboğlu, 2007); thus without a doubt Istanbul is highly internationalized.

FDI

As mentioned before FDI is an important channel for transfer of technology to developing countries, since modern and advanced technologies introduced by multinational firms can diffuse to domestic firms through spillovers (Berköz and Eyüboğlu, 2007; Lenger and Taymaz, 2006). Istanbul ranks high for FDI in Turkey. Turkey attracts US\$ 17,5 million foreign direct investment with 9749 firms. 75.39% of Turkey's total capital

investment (almost US\$ 13,5 million), and 63.29% of the total number of firms (6170) in Turkey are in Istanbul. The distribution of FDI in Istanbul according to the origin of country groups show that more than half of FDI investments come from OECD countries (Berkoz and Eyüboğlu, 2007).

Technological Infrastructure

Istanbul is the capital of high education in Turkey. Out of 100 universities in Turkey, 27 of them are located in Istanbul and each year new universities are established (YÖK, 2009). Almost all high quality universities in terms of research and publications are among these universities.

Besides the existence of high education institutions, Istanbul also hosts a number of well-functioning technology development centers and incubators. Today technopolis, technology development centers and incubators are considered to be important areas for technological progress. For example the most famous technopark Silicon Valley is built around Stanford University in 1950. Many global firms such as Google, Intel, Adobe Systems, Yahoo and VeriSign exist in Silicon Valley (Elitaş et al., 2007). That is why technoparks around the world tries to establish their own Silicon Valley models. Today there are more than 800 technoparks, technopolis and technology development centers in the whole world (Zhang, 2008).

The establishment of the first technopark in Turkey happens to be in Istanbul, established in 1986 as a result of mutual efforts of Istanbul Technical University and Istanbul Chamber of Commerce in 1986. This technopark is still working as Istanbul Technical University Technology Development Center. In 2009, there are twenty technology development centers in Turkey and five of these centers are located in Istanbul around universities namely Bosphorus University Technology Development Center, Fatih University Technology Development Center, Istanbul Technical University Technology Development Center, Istanbul University Technology Development Center and Yıldız Technical University Technology Development Center. Moreover 3 of 18 incubators are located in Istanbul: ITU Arı Technocity, Istanbul University Technology and Innovation Center and Yıldız Technical University and Innovation Center. There is a dominance of software firms in these incubators. For instance 50 of total 59 firms in ITU Arı Technocity are operating in software industry (Elitaş et al., 2007).

Firm Level Technological Capabilities

Considering the firm level technological capabilities Istanbul appears to be the first city in Turkey. According to the URAK's Urban Competitiveness Report, Istanbul has the highest score at trademark capability and innovativeness index.

In terms patents applications and the number of patents issued, Istanbul ranks first as shown in Table 3. The nearest city to Istanbul's patent performance is Ankara but there is a huge gap.

Table 3. Patent numbers, 2008

City	Patent application	%	Issued patents	%
Istanbul	1057	47	187	55
Ankara	269	12	33	10
İzmir	122	5	25	7
Bursa	119	5	16	5
Konya	69	3	8	2
Turkey Total	2268	100	337	100

Source: Adapted from Turkish Patent Institute, 2009

In addition to patents, Istanbul companies are active in "utility model", "trademark" and "industrial design" applications as well. They represent over the half of trademarks (%52) out of 61 thousand trademark applications and again over the half of trademarks (%52) of 36 thousand issued trademarks made in Turkey in 2008. For the utility models Istanbul companies again embody almost the half of utility models (43%) out of three thousand utility model applications and almost the half of utility models (47%) out of a thousand and ninety issued utility models. Further, Istanbul companies represent half of the industrial designs (%50) out of six thousand design applications and again half of the industrial designs (50%) out of six thousand issued designs (Turkish Patent Institute, 2009).

CITIES IN THE GLOBAL MAP

The city rankings do not include innovation and technological capabilities however some cities are well known for their innovativeness. Therefore by studying innovative cities, it might be possible to generate a set of proxy measures that will help to benchmark Istanbul with innovative cities. This explorative attempt might be the base for designing some alternative strategies for Istanbul. Due to space limitations, the paper will mention three examples, one from a developed country and two from developing countries that might be illuminating examples for Turkey.

The Cambridge Region

Considering the rapid growth since the 1960s of a substantial cluster of technology based SMEs covering settlements located up to 15 miles around the city of Cambridge. Cambridge appears as a city region with science base and social networks embodied in Cambridge University (Keeble et al., 1999; Longhi, 1999). Cambridge example seems to have five key mechanisms supporting its innovativeness (Keeble et al., 1999):

- I. *High technology firms from different industries gather in Cambridge region*
- II. *University focused:* The cluster is historically focused on the University of Cambridge with its global reputation for research and scientific activity
- III. *Networking and collaboration:* The cluster exposes the frequency and importance of inter-firm collaboration, networking and interaction,
- IV. *Regional learning:* Regional learning occurs with local movement and spin-off of embodied technological and managerial expertise in the form of entrepreneurs. Moreover there is a flow of research and professional staff between local firms and university.
- V. *In Cambridge region* technology intensive SMEs can perhaps be inferred from the outcome of a high frequency of close inter-firm links.

Cambridge city region emphasizes regional learning and inter-firm networking and collaboration around Cambridge University. It seems that regional learning is an important theme for any region to be ranked as innovative (Lawsen and Loren, 1999).

New York City

In following rounds of economic development, New York slowly secured its dominance over rival metropolises (Batten, 1995). Since 1980s the most innovative city in the US is New York; Approximately 20 %, of the total number of innovations in the country is attributed to firms in the greater New York City area (Longhi, 1999). The major features of New York are given below:

- I. *Center for qualified labor* from both US and the whole world.
- II. *Flexible clusters:* The banking and financial services of New York represent the outputs of clustered flexible production networks that are strongly tied to world markets (Scott et al., 2001). In addition, there is a variety of clusters and sectors in New York such as creative arts, banking and finance and “Silicon Alley” with media companies (Cooke, 2001).
- III. *Intensity of learning and knowledge:* the regional practices of learning that influence the competitiveness of firms in New York is deeply supported (Faulconbridge, 2007).
- IV. *Network connectivity* New York is the first city of the US and second city in the the world after London according to the global network connectivity (Taylor and Walker, 2001).
- V. *The presence of external economies arising from inter-firm linkages:* It is the presence of such linkages today which continues to fuel much of New York’s growth as a financial services centre. Moreover some researcher suggests that there is a size and innovative capacity linkage in New York City (Batten, 1995).

As Porter (1998) showed that the US’s competitive lead in innovation was predicated on the existence of regional innovation systems based in ‘clusters’, New York is based on effective clusters.

Shanghai

Shanghai has gained a substantial lead in developing an innovation environment with extensive global linkages and leading research institutions (Wu, 2007).

Recent changes in China’s national innovation system have affected Shanghai’s policy options. For nearly three decades (1949–1979), following the Soviet Union’s model there was clear division of labor—public research

institutes responsible for conducting the majority of research activities. More specifically Shanghai's efforts to establish a local innovation system mainly began in the 1990s and followed the national lead. The efforts aim to cultivate Shanghai's local innovation system fall into five categories (Wu, 2007):

- I. *Building a support infrastructure to facilitate commercialization of innovation*
- II. *Developing an adequate regulatory and legal framework and attracting great amounts of FDI*
- III. *Investing in human capital.*
- IV. *Nurturing universities and R&D institutions and increasing investment in R&D*
- V. *There are a variety of different kinds of industries*

The Shanghai Science and Technology Commission formulate and implements policies related to the city's S and T development. Accompanying the creation of the support infrastructure is a stable rise of investment in S and T. For example, expenditure in R&D has increased extensively, reaching over US\$ 2,5 billion in 2004 (Wu, 2007).

Moreover a great number of national S and T programs launched since the mid-1980s have had significant marks on the city. Above all, the designation of high-tech/science parks in Shanghai followed the launching of the national "863" and "Torch" programs, to promote the development of high-tech industries. 4 Science parks are used as incubators for nurturing such industries and promoting research spin-offs like Caohejing High-Tech Park, Zhangjiang Science Park, Jinqiao Science Park, Shanghai University Science Parks, China International Textile Technology Development Zone and Jiading High-Tech Park. (Wu, 2007)

Important Points from Three Exemplar Innovative Cities

The examples of Cambridge, New York, and Shanghai have five common features that might highlight the critical success factors for cities like Istanbul searching to become innovative listed below:

- I. *Collaboration*: There is a great emphasize for collaboration and learning at regional level. "Cities exist in part to facilitate learning between individuals who come into contact with one another" (Storper and Scott, 2009). For example Cambridge region involves regional learning which is triggered by university based and entrepreneurial spin-offs. In Shanghai learning at regional level is supported by programs such as national S and T program.
- II. *Flexible clusters*: There are highly diverse clusters within these city regions; city regions offer many opportunities and facilities and qualified labor for these different kinds of high tech industries and clusters.
- III. *Infrastructure*: An appropriate infrastructure dedicated for innovation supports the region. Particularly, ICT infrastructure, transportation, energy and supporting institutions are very important for city regions. Technoparks and technopolis are also a critical part of any innovation infrastructure. Caohejing High-Tech Park, Zhangjiang Science Park, Jinqiao Science Park, Shanghai University Science Parks, China International Textile Technology Development Zone, Silicon Alley and Cambridge University are some examples. These institutions take part as a bridge and an incubator for supporting the firms operating in city regions.
- IV. *Labor*: These cities attract qualified labor. There are well established universities and employment opportunities within these cities.
- V. *Network*: A strong network is established between local firms, institutions and universities as well as international actors. For instance New York is always ranked as a second city for network connectivity. On the other hand Cambridge in Europe has this recognition and connectivity in many areas. The industrial infrastructures of Cambridge and New York take their roots from very old times (Cambridge in the times of industrial revolution and New York for last two centuries).

CONCLUDING REMARKS: CHALLENGES FOR ISTANBUL

In a global world in which the waves of globalization have forced the introduction of strategies to enhance innovativeness and competitiveness; the role of cities as a regional innovation centers becomes more and more significant. In recent years, there has been increasing concern over the formation and outcomes of cities as global innovation centers. Accordingly this paper investigates the potential of Istanbul in becoming an innovative city?

Istanbul has a chance to take part in the global innovation league. Considering the Eraydın's (2008) categorization, Istanbul now is a challenging city with a dualistic economic structure and labor market where both traditional industries and emerging new (high-tech) manufacturing activities. If strategies are developed and applied at government and municipality level, Istanbul can increase its position in the hierarchy of global cities. In addition, its central and transit location between Europe, Asia and Africa and the Bosphorus coupling Black

Sea to Mediterranean Sea might provide Istanbul many other opportunities to become a global center for innovation (Taylor and Walker, 2001).

On the basis of success factors identified by analyzing three innovative cities namely Cambridge, New York, and Shanghai, the position of Istanbul might be summarized as follows: 1) Istanbul has qualified labor force but still low even compared to Ankara in Turkey; 2) collaboration and regional learning exist at moderate level; 3) infrastructure is the best with the Turkish standards but they are not yet world-level/state-of-the-art institutions; 4) networking/connectivity is low in Istanbul, given that it is the 35th city in global network connectivity (Taylor, 2003); 5) diverse industrial and clusters exist in Istanbul.

Istanbul has a good base to become a global innovative city. If so, by following Eraydin's (2008) categorization, an appropriate and feasible strategy for Istanbul could be to follow a two-complementary/mixing strategy: becoming a learning region and becoming a high-technology industrial district. So, the short term strategy is to use the existing base and develop absorptive capacity in companies and institutions. The learning capability will not only increase efficiency and generate confidence in companies' own skills but also it will motivate firms to take the next step for becoming a "creative follower". At the same time, all actors of Istanbul innovation system should try to establish a well-functioning system where the development and use of new technologies will accelerate the transformation of production systems. Based on this short term strategy that is a mixing strategy, it becomes possible to develop the long term strategy whose goal is to build a global innovative city with high levels of connectivity with the rest of the world.

Both short and long term strategies require explicit plans where entrepreneurs, small firms and the government should take part in so that becoming a creative follower becomes possible. This seems a long journey but Istanbul deserves to be in the list of global cities where innovation will be the core.

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THE RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND FIRM PERFORMANCE: THE MEDIATING ROLES OF INNOVATION AND TQM

İpek Koçoğlu
Salih Zeki İmamoğlu
Hüseyin İnce
Gebze Institute of Technology, Turkey

ABSTRACT

The main purpose of this study is to evince the influence of organizational learning on firm performance through the mediating roles of innovation and total quality management (TQM). The relationship is constructed based on the four dimensions of organizational learning namely; intra-organizational knowledge sharing, shared vision, commitment to learning and open mindedness and the two dimensions of firm performance explicitly; market performance and employee satisfaction. Amid in this research agenda three partial gaps have been explored: First, besides the relationship between TQM and innovation, a robust relationship of organizational learning and firm performance seem to be plausible but the gap embedded in the literature is the absence of a study examining the cumulative influence of the organizational factors which complement and enhance each other –organizational learning, innovation and TQM- on the organizational performance. In doing so this study investigates the four dimensions of organizational learning mentioned previously, the five dimensions of the TQM, particularly –participation, leadership, process management, continuous improvement and customer orientation, and innovation in the context of their impact to market performance and employee satisfaction as the components of firm performance. Second, previous works have almost exclusively focused on the co-alignment between organizational learning and innovation as compelled to deliver firm performance. While the relationship between organizational learning and firm performance has been investigated there has been minimal analysis of the phenomena taking into account the role of innovation. Hence little empirical evidence has so far been offered to support the positive relationship between these strategic weapons of the organization on the performance as well as each other. Third, the paper investigates the multidimensional and contingent gradual effect of organizational learning on firm performance through the conjunctive roles of innovation and TQM without ignoring the counteraction to potential changes from a satisfactory status-quo. Concurrently, this study develops a platform through which organizational learning will shape innovation, TQM and progressively the firm performance.

Keywords: Organizational learning, innovation, total quality management, organizational performance

INTRODUCTION

“The only real security that a man can have in this world is a reserve of knowledge, experience and ability.” Henry Ford’s words reflect the significance of knowledge coming into prominence in an era where the speed of change exceeds the limits of human imagination. The way an individual, an organization or even a nation can create wealth and prosperity is changed through knowledge which constitutes the basis of the third industrial revolution (S.-h. Liao et al., 2008). Although different approaches are used for the examination of organizational learning construct, learning has been more recently considered from a strategic perspective as a distinction of heterogeneity among organizations and an actor enabling competitive advantage (Gomez et al., 2005). The literature suggests that firms which are able to “learn” obtain a better opportunity in sensing events and trends in the marketplace (Martinez-Costa and Jimenez-Jimenez, 2009). Since Drucker (1985) asserts knowledge as the only source of an organizations’ competitive advantage; enterprises should find ways to strengthen the research and development, management and utilization of knowledge in order to cope with the challenges (S.-h. Liao et al., 2008). Contingently, the examination of knowledge management within the organizations has been emerged in 1990’s. The theory of Nonaka proposed in 1991, suggested the

“organizational knowledge creation” through the reshaping of old operational processes and the adoption of the novel ideas (S.-h. Liao et al., 2008). Rather than considering knowledge as the “hard” source of quantifiable data which could only be mechanistically processed to utilize, Nonaka presents the idea of “soft” tools to make use of such knowledge (Nonaka, 1994). The key to the holistic way of knowledge creation of Japanese firms explicitly; Honda, Sharp, NEC and Canon in Nonaka’s study is the essentiality of tapping the tacit and subjective perceptions. Hence, the resource-based theory of the firm suggests that knowledge dominates other resources through its inimitability characteristic by the continuous improvement of market information processing activities faster than competitors; it provides the long term competitive advantage to firms (Martinez-Costa and Jimenez-Jimenez, 2009). The survival of the firms in knowledge-based economies is determined by the successful knowledge management. Moreover, gaining superior firm efficiency, promoting high competitive advantage, achieving outstanding organizational performance and surviving in the competitive knowledge-based markets can be obtained by organizational learning (Ussahawanitchakit, 2008).

Organizational learning is often defined in the literature as a strategy for information management consisting of systematic efforts to relocate knowledge throughout an entire organization, following Senge’s (1990) *Fifth Discipline* (Spector and Davidsen, 2006). With the exploitation of organizational values, information processing behaviors, and organizational actions enterprises use organizational learning as a source of heterogeneity and of sustainable competitive advantage. Hereby firms need to strengthen the research and development of organizational learning, to manage it efficiently, to utilize it effectively and to acquire it continuously for the aim of distinctively meeting customer requirements and seeking market needs (Ussahawanitchakit, 2008). In this regard, organizations need to determine the factors affecting organizational learning, and the factors that are influenced by the organizational learning.

This study therefore contributes to this area by examining the relationship of organizational learning with the firm performance through the mediating roles of innovation and total quality management. This study contributes to the literature in several ways. First, this study is important when viewed in relation to today’s highly competitive environment where pressures for organizations to meet multiple demands is a challenging task where several forces need to be working in collaboration to achieve a unique goal. Therefore, this study targets to determine the intra-relations of organizational learning, innovation, TQM and firm performance, and to estimate their distinct effects on organizational performance. Secondly, this study constitutes an important bridging between the areas of knowledge management, quality management, innovation management and strategic management. Strategic management focuses on the performance concept in organizations and knowledge management aims at improving the performance of enterprises together with the competitive advantage using organizational learning as a key factor. Both in academic and in professional surroundings the researches prove that learning is of essential importance for organizations (F.J. Lloréns Montes et al., 2005). An overview of the innovation literature reflects that there’s a great consensus among researchers about the importance of the innovation in the achievement of high organizational performance (F.J. Lloréns Montes et al., 2005). In parallel to calls made for organizations to become innovation focused, they have also been urged to become more quality focused (Singh and Smith, 2004). From the innovation point of view, the examination of the TQM’s impact on innovation is important in contributing to the development of managerial practices which can be used as a resource for determining innovation performance (Prajogo and Sohal, 2006). The awareness of the dominance of these two concepts; innovation and learning, necessitates the examination of the relationship between the two as well. Although the arguments in literature consider the positive relationship between learning and innovation there are several gaps regarding the issue. The empirical standpoint of this link is missing and innovation’s mediating role in providing the organization to fit into its environment is not examined (F.J. Lloréns Montes et al., 2005). Moreover, the emergence of Total Quality Management (TQM) has been one of the major developments in management practice, which has been considered quite few in relation with organizational learning, and innovation as well as organizational performance. TQM started to be introduced in the US around 1980 with a devastating delay resulting in the domination of Japanese firms in the market. Western organization culture beginning to interrogate the reasons for the sudden drop in the market share has needed to primarily deal with deep competitive challenges encountered due to Japanese companies’ successful adoption of TQM (Prajogo and Sohal, 2001). At this standpoint this study recognizes the need to acknowledge the link between Nonaka’s suggestion of learning from Japanese companies in knowledge creation and management, with the successful application of TQM to their enterprises. TQM has been promoted as an approach to management that enables organizations to become customer (internal and external) and quality focused (Singh and Smith, 2004).

Based on an extensive review of relevant literatures on organizational learning, innovation, TQM and firm performance it is noticeable that the concepts are closely intertwined and explicitly linked. Accordingly, organizational learning is a critical strategy which organizations implement it to build high firm performance; gain outstanding competitive advantage and enhance competitiveness. Organizational learning makes these goals accessible to the enterprise by the mediating roles of innovation and TQM both on each other and on

organizational learning itself. This paper explores the possibility of using organizational learning with the mediating roles of innovation and TQM as collective contribution to the firm performance. Furthermore the paper is arranged starting with the literature review of each concept; organizational learning, innovation, TQM and firm performance. Accordingly six main hypotheses are investigated and supported through the literature, in parallel with the proposed theoretical model regarding the positive inter-relationships of all the above mentioned variables. The six sets of hypotheses inspected in this study are explained in the following literature research section of the study. The proceeding section is the research methodology, and finally the article is concluded with the conclusion part.

Organizational Learning and Innovation

Organizational Learning

Learning; is at the heart of company management and has become the essence of productive activity, being a need more than a choice in today's conditions (F.J. Lloréns Montes et al., 2005). When John Dewey's definition of individual learning as "the process whereby knowledge is created through the transformation of experience creating a change in that person's behavior" is compared with that of Argyris and Schön, (1978) "organizational learning occurs when members of the organization act as a learning agent for the organization, responding to changes in the internal and external environment of the environment by detecting and correcting errors" the bridge between the individual and organizational learning becomes clear. Organizational learning shares many of the characteristics of individual learning mainly; that learning is about changes that tend to persist and measuring those changes would establish that change has occurred (Spector and Davidsen, 2006). All humans are born with the ability to learn and through it they adapt to the changing and evolving environment (S.-h. Liao et al., 2008). The learning of organizations in the study of S.-h. Liao et al. (2008) are referred to as; when the members of an organization use learning to solve a common problem that they are facing. Though, learning to achieve the organizational level crosses two stages; individual and group learning thereafter it becomes organizational. Individual learning occurs with the acquisition or creation of knowledge, group learning happens when this knowledge is transferred and disseminated and finally organizational learning is achieved with the integration and sharing of this knowledge through the organization (Gomez et al., 2005). Yet, organizational learning has a collective nature that goes beyond the individual learning of people (Gomez et al., 2005). Supporting this idea, Argyris and Schön as referred to in Baker and Sinkula's (1999) study; organizational learning occurs by detecting a mismatch of outcome to expectation, which disconfirms theory in use. When this occurs, the firm moves to error correction, which results in a change in theory in use (Baker and Sinkula, 1999). The collective action of the firm to detect the unwanted outcome and its correction implies a continuum of internal changes which in turn will lead to constant improvement and innovation (Gomez et al., 2005).

Most of the researchers describe the organizational learning process as the acquisition, interpretation, storage and implementation of new knowledge in order to improve problem solving capacities of the organization (Huber, 1991; Thomas et al., 2001; S.-h. Liao et al., 2008). Learning by an individual forms the basis of organizational learning since organizations will learn through its members and because it results from an accumulation of individual learning (S.-h. Liao et al., 2008; Calantone et al., 2002). Another view is that of Nonaka (1995) who claims that, organizational knowledge is created through the continuous interaction between tacit and explicit knowledge. Consequently, Spector and Davidsen (2006) argue the measurement and modeling of organizational learning based on a socially-situated, information processing view of learning. Peter Senge; the writer of the seminal book *The Fifth Discipline: The Art & Practice of the Learning Organization* and the founder of the Organizational Learning Center at MIT, which later became the society for Organizational Learning (1990), argues that the a group of people's desire to enhance their capacity to produce is actually the interpretation of the attempt for organizational learning (Spector and Davidsen, 2006). In view of those, every organization will develop the most suitable learning method according to the needs and characteristics of the organization itself (S.-h. Liao et al., 2008).

Two types of organizational learning are mainly discussed in the literature. The first is; single-loop learning (Argyris and Schön, 1978) which can be referred to, as exploitative learning (S.-h. Liao et al., 2008), or incremental learning (Miner and Mezias, 1996), or Non-Duetero characterized as passive learning (Saban et al., 2000). The single-loop learning is adaptive and takes place within the structure and processes of the learning system (Hedberg and Wolff, 2001). It is the acquisition of new behavioral capacities framed within existing insights (S.-h. Liao et al., 2008: 184). The second type of organizational learning is double-loop learning (Argyris and Schön, 1978), which can also be referred to, as radical learning (Miner and Mezias, 1996), higher level or generative learning (Sadler-Smith et al., 2001), active learning (Saban et al., 2000), or explorative learning (S.-h. Liao et al., 2008). It occurs when organizations acquire behavioral capacities that fundamentally

differ from existing insights. This type of learning involves multi-stage learning based on discovery, criticism, effectiveness, variation, flexibility and innovation (S.-h. Liao et al., 2008). These views constitute the basis of organizational learning literature.

The concept of organizational learning assumes that there exists a collective desire that may be satisfied through collective action and, further, that there is a potential for collective improvement that may be attained through learning. Accordingly the four dimensions of organizational learning considered in this study are, intra-organizational knowledge sharing, shared vision, open mindedness and commitment to learning. To start with; intra-organizational knowledge sharing is the spread of knowledge and information across different departments in an organization, along with the systematic reexamination and structuring of their accumulation to serve as a source of future action (Calantone et al., 2002). Second; shared vision refers to a common direction among the organization for learning. Organizational learning requires bringing the members together around a common identity with the existence of a collective conscience that allows the firm to be seen as a system in which each element must make its own contribution (Gomez et al., 2005). Involvement of people in establishing and implementing a joint vision leads to their motivation to learn what they are held responsible of (Chermack et al., 2006). Respectively the importance of relationships based on the exchange of information is recognized through a common language favoring knowledge integration (Gomez et al., 2005). Third; for the organization to outrage among firms, it must go beyond adaptive learning and concentrate on generative learning. This requires, open mindedness in the organizational structure which is the willingness to critically evaluate the organization's operational routine and to accept new ideas (Calantone et al., 2002). In order to allow individual knowledge to be constantly renewed, widened and improved, a learning that implies open mentality towards new ideas, flexible solutions to current and future problems is required (Gomez et al., 2005). Lastly, the fourth dimension is commitment to learning which indicates the degree to which an organization values and promotes the acquisition, creation and transfer of knowledge considering learning as an important investment for survival (Calantone et al., 2002). According to Gomez et al., (2005), commitment to learning can be achieved with the support of management. Management should encourage the employees to understand and become involved in the process of learning. It should take the responsibility to create an organization capable of regenerating itself and coping with new challenges by leading the process of change (Gomez et al., 2005). Hence commitment to learning can diffuse to the whole organization.

Innovation

Innovation allows organizations to progress parallel with the changes flourishing in the environment. It's a strategic key in responding to the new challenges of an environment full of uncertainties (F.J. Lloréns Montes et al., 2005). For an organization, innovation would denote the generation or adoption of novel ideas or behavior (S.-h. Liao et al., 2008). In the literature the idea that innovation is essential for firms' long-term success and survival constituting a competitive instrument is widely recognized (Santos-Vijande and Alvarez-Gonzalez, 2007). As it is referred in the study of Hitt et al. (1997) and Tidd (2001), innovation is defined as the doors opening to both global and international competitive advantage through: providing the marketplace with new or unique products/services; creating entry barriers that provide the necessary resources to develop innovation through learning; and creating new values that reshape the rules of competitive environment (F.J. Lloréns Montes et al., 2005). Authors reflect Nonaka and Yamanouchi's (1989) suggestions as; organizations fit to the changing conditions of the technology and the market by diversifying and adapting, and even rejuvenating or "reinventing" through innovation (Santos-Vijande and Alvarez-Gonzalez, 2007). A profound research on innovation literature shows that various definitions of innovation are present from different perspectives. Damanpour (1991) defines innovation as; the adoption of an internally generated or purchased device, system, policy, program, process, product, or service that is not necessarily new to the world but specifically new for that adopting organization (Prajago and Sohal, 2001). Wu et al., (2008) suggest that an innovation is defined as an idea, a product or process, or a system that is perceived to be new to an individual. Besides, there are many typologies and classifications of innovation such as; radical versus incremental, product versus process, technology versus management innovation. The most established classification of innovation distinguishes it as incremental or radical. Incremental innovative capability is defined as the capability to generate innovations that refine and reinforce existing products and services. Radical innovative capability is the capability to generate innovations that significantly transform existing products and services (Subramaniam and Youndt, 2005).

The Relationship between Organizational Learning and Innovation

Innovation is closely related to organizational learning (Chaveerug, 2008). Argyris and Schön (1978) discuss in their work that organizational learning would strengthen the innovative capability of an enterprise. Veroma (1996) propounds the idea that the innovation process involves the acquisition, dissemination and the application of new knowledge (Chaveerug, 2008). Chaveerug (2008) accordingly stresses the wide agreement in

the literature on the correlation between learning and innovation capability. Moreover according to S.-h. Liao et al. (2008), innovation is the prerequisite of knowledge creation and the essential key of knowledge management, because organizations mainly learn from the innovations made or adopted. Through single and double-loop learning which forms the meta-learning process, learning of the whole organization is enhanced and this contributes to innovations (S.-h. Liao et al., 2008). Chaveerug (2008) concludes in his study that organizational learning is associated with the development of new knowledge, which is crucial for firm innovation capability and firm performance. Darroch (2005) as a result of her research states that “a firm capable in knowledge acquisition, knowledge dissemination and responsiveness to knowledge is more innovative.” Most studies consider that learning injects new ideas and strengthens the creativity and the ability to discover new opportunities, so it supports the presence of innovation (F.J. Lloréns Montes et al., 2005). Most successful innovations are the result of gradual changes in concepts and methodology implemented continually over time (S.-h. Liao et al., 2008). This gradual process relies on the creation, search, acquisition and sharing of knowledge which in turn will provide organizational learning and will constitute the base for the successful innovation. In fact, as a result of the successful applications of numerous organizational learning models to some aspects of innovative processes, the new meaning of the innovation concept starts to be reshaped as the process of organizational learning by the organizations (F.J. Lloréns Montes et al., 2005). The above discussion reflects the interaction between organizational learning and innovative outcomes of an enterprise, hence, as stated in the following hypotheses.

Hypothesis 1: Organizational learning has a positive influence on innovation.

Organizational learning and TQM

Total Quality Management

The most influential person in the quality revolution was Dr. Edward Deming. After a special program produced in television titled “If Japan can. Why can’t we?” The focus was on Deming’s role on the development of Japanese quality. After that program the importance given to quality in U.S. industry increased and U.S. government recognized the influence of quality on nation’s economic wealth (Samson and Terziovsky, 1999). Concurrently, TQM has moved away from being a uni-dimensional construct to being evaluated as a strategic weapon for the firms which has to be managed and implementation of which leads to a dynamic capability of the enterprises (Ortiz et al., 2006).

Among many definitions that have been suggested on TQM, the definition by the US Department of Defense suggests that; TQM utilizes both quantitative (technical) methods and human resource (behavioral) practices to improve material and service inputs, intra- and inter-organizational processes, and to sharpen the focus on meeting customers’ needs (Singh and Smith, 2004). The main problem in defining TQM is the absence of a common definition in the literature. TQM concepts and practices are shaped by a number of individuals who are honored as “quality gurus” such as; Deming (1982), Feigenbaum (1983), Juran (1988), Juran and Gyra (1993) and Crosby (1984). Commonly, TQM can be understood as a total company wide effort that includes all employees, customers and suppliers and that continually aims at improving the quality of products and processes to meet and even exceed the needs of the customers (Martinez-Costa and Jimenez-Jimenez, 2009). Kumar et al. (2009) refer to the definition of Pfau (1989) who describes TQM as a holistic approach to improving quality, productivity and competitiveness in the international marketplace. Another definition of TQM similar to that of Singh and Smith’s (2004) is that of Yang (2005) who gives more detail by stating that TQM is an integrated management philosophy and a set of practices that emphasizes, among other things, continuous improvement, meeting customers’ requirements, reducing rework, long-range thinking, increased employee involvement and team-work, process redesign, competitive benchmarking, team-based problem-solving, constant measurement of results, and closer relationships with suppliers (Kumar et al., 2009). Hence there is a systematic integration among the dimensions of the TQM leading to integral management (Ortiz et al., 2006). The dimensions of Total Quality Management are needed to be identified to facilitate accurate analysis. These dimensions are; leadership, people management, customer focus, strategic planning, information analysis, process management, performance (quality, operational and business performances) (Samson and Terziovsky, 1999; Singh and Smith, 2004; Prajogo and Sohal, 2001; Samson and Terziovsky, 1999).

Yet this study focuses on the four among the dimensions of TQM explicitly; participation which is also referred to as people management, leadership, continuous improvement, process management and customer focus. As stated in Costa et al.’s (2008) study reflecting Evand and Lindsay’s (2002) definition; “focus on customers and stakeholders, participation and teamwork by everyone in the organization and a process focus supported by continuous improvement and learning”. Participation indicates a decentralization of work decisions and empowerment. In parallel with the selection and training of the personnel as besides the incentive programs,

the sense of equity building creates employees that are actively taking role in the quality creation, continuous improvement of processes and products (Ortiz et al., 2006). Leadership reflects management's commitment and vision towards creating a strategic resource out of quality which acts to achieve competitive advantage. The formulation of strategy and objectives to reach quality should be aligned with corporate strategy as well as organizational values in which management plays a crucial role (Ortiz et al., 2006). Additionally continuous improvement which encourages change and creative thinking in the organization structure of the work provides to creatively exceed the quality standards or usual expectations. Moreover, as argued by Prajogo and Sohal, (2001), the continuous improvement requires the standardization of the processes which produces several consequences: (a) it reduces any ambiguity in the design of tasks, which makes its innovation difficult; (b) it results in some organizational conformism, as the employees do not want to suffer the opportunity cost of breaking routines or assume the effort of the alternative thought; and (c) it leads to lower flexibility and openness to change as a result of the "adhesion" that is finally generated to the repeated behavior (Vijande and Gonzalez, 2007). The emphasis of the continuous improvement is on incremental change developed by Imai (kaizen) aiming at process improvement (Prajogo and Sohal, 2001). Furthermore, process management focuses to guarantee the reliability of the planned and programmed tasks of the organization. The documentation and design of the processes, cleanness and preventive maintenance of the work areas are of crucial importance for the effective management of the processes (Ortiz et al., 2006). Finally the last dimension of TQM is customer focus which "is built on relationships of internal and external trust, with a view to adapting the product or service to the critical factors of quality" as indicated by Ortiz et al., (2006). Hence, TQM oriented firms should base its operations to meet or exceed the customer requirements to achieve competitive advantage where in this situation a continuous evaluation of customer orientation needs to be made (Vijande and Gonzalez, 2007).

The Relation between Organizational Learning and TQM

There appears to be no doubt about the importance of total quality management (TQM) and its positive relationship to competitiveness in terms of improved productivity and reduced costs (Sohal and Morrison, 1995). But discussions on the relationship between TQM and organizational learning do not appear very often in the literature. Essentially, only a small portion of the research regarding the concept is supported by empirical evidence or by theoretical concepts.

Enhancing competitiveness through TQM has become an increasingly important challenge for learning in organizations. Consequently organizational learning must be mentioned as a key issue, especially for organizations seeking to progress towards TQM (Martinez-Costa and Jimenez-Jimenez, 2009). According to Barrow (1993) the relationship between TQM and organizational learning has two evidences. The first evidence is that there is a cause and effect relationship, i.e. learning is an intended outcome of TQM. The second evidence is; the presence of correlation between two powerful systems – process improvement and organizational learning, which are operating in a concurrent and integrated manner. Martinez-Costa and Jimenez-Jimenez (2009) refer to Ford's (1991) consideration that TQM constitutes the environment necessary for creating organizational learning. Some authors including Senge (1994) claim that TQM is the first wave in building the learning organizations. Moreover Barrow (1993) argues that the natural outcome of TQM is the continuous improvement in quality being the accelerating vehicle for learning (Martinez-Costa and Jimenez-Jimenez, 2009). TQM is the environment where not only the single-loop learning takes place but if the organization adopts a system where workers can learn and share knowledge as well as making contributions (Martinez-Costa and Jimenez-Jimenez, 2009). Related to this fact, as a result of Hult et al.'s study in 2003; larger organizations with a longer history has a better performance in organizational learning (S.-h. Liao et al., 2008). Larger organizations having a longer history have deeper and safer quality systems. Accordingly, the TQM in such environments is created based on a double-loop learning which does not only involve trial and error but due to the vast experiences and cumulative knowledge the learning curve grows higher. The research findings indicate that organizational learning is the outcome of a successfully executed TQM processes (Martinez-Costa and Jimenez-Jimenez, 2009).

Hypothesis 2: Organizational learning has a positive influence on Total Quality Management.

Organizational Learning and Firm Performance

The Relation between Organizational Learning and Firm Performance

Related with the literature on organizational learning in relation with firm performance; organizational learning, as the source of knowledge creation and knowledge as the unique, inimitable and infinite resource of the resource-based theory, is emphasized as the factor in the achievement of competitive advantage. The

literature views organizational learning as the basis of gaining a sustainable competitive advantage and a key to firm performance (Martinez-Costa and Jimenez-Jimenez, 2009). Organizations that embrace strategies consistent with the learning organization are thought to achieve improved performance (Ellinger et al, 2002; Calantone et al., 2002). Ellinger et al. (2002) examined the relationship between organizational learning and firm's financial performance. Their research aims to determine the effects of continuous learning, inquiry and dialogue, collaboration and team learning, empowerment of people towards collective vision, connection of organization to its environment and the leadership support on the financial measures of performance (e.g. ROE, ROA, MVA). Their exploratory research suggests a positive association between learning organization practices and objective measures of firms' financial performance. Additionally, Baker and Sinkula (1999) not only think that the organizational learning orientation of a firm affects its performance directly but they also think there's an indirect relationship between. A firm's learning orientation influences its performance indirectly by improving the quality of its market-oriented behaviors and directly through facilitating the generative learning that leads to innovations (Baker and Sinkula, 1999). The direct influences of organizational learning can be listed as; (1) the promotion of generative learning as a core competency as a result of knowledge creation, (2) the questioning of long-held assumptions such as to always follow market-oriented strategy, instead try to lead the market with new product development strategy for instance, (3) the realization that customer satisfaction cannot always be maximized with customer feedback mechanism but innovative disruptions are needed (Baker and Sinkula, 1999). Accordingly the learning orientation influences firm performance indirectly through market information generation and market information dissemination (Sinkula et al., 1997:307). This market information processing, is a necessary condition for organizational learning, essentially the process transforming information into knowledge (Sinkula et al., 1997: 308). Another view is that of Calantone et al.'s (2002); they think that organizational learning affects organizational performance through the firm's innovative performance (Calantone et al., 2002). Some other arguments about the positive influence of organizational learning on firm performance are stated by Martinez-Costa and Jimenez-Jimenez (2009). Organizations better at learning have a better chance of sensing events and trends in marketplace which will in turn lead to better sales and increased market share (Martinez-Costa and Jimenez-Jimenez, 2009). Moreover, organizational learning provides a more flexible and responsive structure to the organizations so that they can respond to new challenges faster than the competitors (Martinez-Costa and Jimenez-Jimenez, 2009). Continuous learning will also provide the organization fast improvement of market information processing activities (Martinez-Costa and Jimenez-Jimenez, 2009). Chaveerug (2008) claims that the greater commitment to learning is, the more likely that firms will achieve higher organizational performance (Chaveerug, 2008: 94). The arguments from the literature contribute to the formulation of the below hypothesis.

Hypothesis 3: Organizational learning has a positive influence on firm performance.

Innovation and TQM

The relation between Innovation and TQM

The recognition of TQM as a competitive advantage cannot be underestimated around the world especially in Western countries. Together with this fact, also innovation has received considerable attention as having a crucial role in ensuring sustainable competitive advantage in the globally competitive environment (Prahalad and Sohal, 2001). Almost in parallel to the calls made for organizations to become quality focused, organizations have also been urged by the researchers to become more innovative (Singh and Smith, 2004). These two determinants of firm competitive advantage can then be examined in terms of their inter-relationship in the establishment of firm performance resulting in competitive advantage. The main aims in discussing the relationship between TQM and innovation are; (1) to examine the relevance of TQM for the management of innovation; (2) to determine how useful is TQM as a resource for innovation; (3) and to clearly identify the relation between innovation and TQM (Prahalad and Sohal, 2001). Another important view is that TQM is seen as one form of innovation (Prahalad and Sohal, 2001). There are many common aspects of TQM and innovation (Singh and Smith, 2004). Continuous improvement is a key feature of both TQM and innovation. Open culture is seen as an important aspect of both innovation and TQM (Singh and Smith, 2004). These similarities are important due to the fact that organizations implementing TQM well could also be more innovative than organizations that do not (Singh and Smith, 2004). In other words organizations adopting TQM will possess higher innovation levels and vice versa. So TQM can be an instrument for organizations to become more innovative (Singh and Smith, 2004).

Arguments about the positive relationship between TQM and innovation focus on the idea that organizations adopting TQM in their structure create an appropriate environment for innovation in terms of growth because TQM includes principles that are in agreement with innovation (Prahalad and Sohal, 2001). The

continually and rapid changing customer needs, require organizations to meet these demands, fast and accurately. This goal can be achieved more successfully if new customer demands and expectations are searched and determined. So that organizations are capable of developing and introducing new products or services as innovations required for the adaptation to changing market (Prajo and Sohal, 2001). Meeting customer needs and expectations is a requirement but to make the customers delightful is the ground for competitive advantage. Hence producers or suppliers need not only to satisfy customer demands but also to exceed those needs, and that's an issue of innovation (Prajo and Sohal, 2001). Only innovating organizations can survive in this globally competitive environment keeping in mind that dynamic and responsive structure is the key factor for competitiveness. Companies adopt innovation in two ways; by copying from other firms or developing their own innovation. The second strategy is a more successful one if the competitive advantage is targeted. Companies following a TQM approach assimilate innovations imported from other firms more easily due to the willingness of its employees to accept new ideas as a result of the continuous improvement methods promoted by TQM. These enterprises can also develop their own innovations by building on the work of both continuous and breakthrough improvements (Martinez Lorente et al., 1999). According to Martinez Lorente et al. (1999) one of the main elements of TQM is the need for adequate customer focus. Since customers are going to become increasingly more demanding for the aim of identifying current and future customers and their needs, TQM constitutes a stimulus to business innovation towards a more customer oriented structure (Martinez Lorente, 1999). In line with this discussion from the literature the following hypothesis has been created.

Hypothesis 4: Total Quality Management has a positive influence on innovation.

Innovation and Firm Performance

The Relation between Innovation and Firm Performance

The link between innovation and performance at various levels of aggregation has been the focus of attention in a number of studies in recent decades (Calantone, 2002). Nevertheless, the link between firm innovativeness and performance has not been tested sufficiently (Calantone, 2002). The ability of firms to satisfy customers' emerging and complex requirements, meet growing consumer expectations and satisfaction, and respond rapidly to changing environments, is largely based on their innovation orientation (Ussahawanitchakit, 2008). Innovation orientation is central to firms' survival strategy, and it becomes a potential strategy in gaining competitive advantage. An organization's openness, acceptance, and implementation of new ideas, processes, products or services and propensity to change through adopting new technologies, resources, skills and administrative systems reflect its innovation orientation, in other words its degree of being ready to innovation (Ussahawanitchakit, 2008). Innovation orientation strongly improves employees' job attitudes, job satisfaction and organizational commitment (Ussahawanitchakit, 2008). The diffusion of innovations literature also confirms this view and suggests that firms must be innovative to gain a competitive edge in order to survive (Calantone et al., 2002). The study of Calantone et al. (2002) resulted in the positive relationship between innovativeness and firm performance. Also the findings in other studies about new product development and innovation diffusion have resulted in positive relationship between the two values. The results of the study of Calantone et al. (2002) also suggest that the competitive advantage of the firms is built on a full understanding of customer needs, competitors' actions, and technological development, an understanding made possible by organizational commitment to learning. Firms without these attributes are less likely to stand out in terms of innovation capability, although they may look elsewhere to find ways to survive (Calantone et al., 2002). These are the factors that increase business performance. Klomp and Van Leeuwen (2001) examine the relationships between the different stages of the innovation process and overall economic performance. According to their study the innovating firms perform better than the non-innovating firms, as shown in the Figure 1, indicating the growth of sales in the innovating (indicated with white bars) versus non-innovating (indicated with black bars) firms.

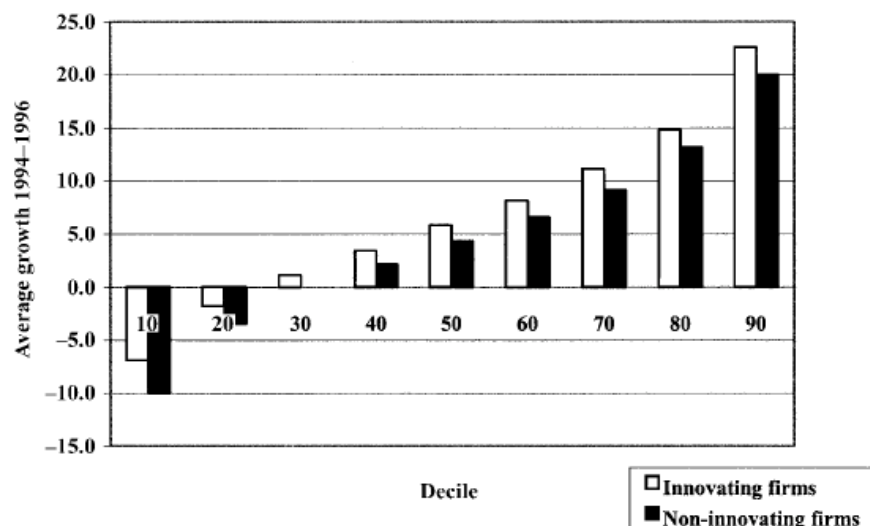


Figure 1. The distribution of sales growth of innovating versus non-innovating firms.
 Source: Klomp and Van Leeuwen, 2001.

Recent innovation studies place much emphasis on innovation as a production process, with new or improved products as a separate output which enhances overall firm performance. This enables a firm's overall sales performance to be linked more explicitly to the innovation process (Klomp and Van Leeuwen, 2001). Klomp and Van Leeuwen conclude that the innovation contributes significantly to the overall sales performance, productivity (as measured by sales per employee) and employment growth. Darroch (2005) argues that managers wanting to enhance performance should pursue innovation since in the current environment; innovation might be required to simply remain competitive. Without innovation, firms risk losing their competitive position by falling behind (Darroch, 2005). Evidence obtained from the extensive literature research provides support for the consequent hypothesis.

Hypothesis 5: Innovations have a positive influence on firm performance.

TQM and Firm Performance

The Relation between TQM and Firm Performance

One of the most popular and most often recommended approaches to help companies improve efficiency and competitiveness through improvement of quality is the philosophy of TQM (Kumar et al., 2009: 23). The literature on quality argues that TQM is a strategy that provides organizations with competitive advantage (Martinez-Costa and Jimenez-Jimenez, 2009). The importance of quality for company's performance and success on the market is widely recognized in business literature and practice (Kumar et al., 2009). TQM implementation is believed to lead to company performance improvement. In order to study the influence of TQM on performance, an understanding of TQM is needed that enables us to identify which competencies it generates and what repercussions that has on the results (A. B. Escrig Tena et al., 2001). Numerous studies indicate positive relation between TQM implementation and performance. Examples of benefits achieved from TQM by companies around the world include: decreased inventory 23 percent in two years, order changes halved, delivery time reduced from 20 to 4.5 days, quality teams saved \$5.6 million over four years, customer claims frequency reduced by over 40 percent, customer service response time reduced by 44 percent, lost time from injuries reduced 46 percent, cost of quality reduced from 12 percent to 9 percent, operating profits increased 7.4 times, 98 percent first pass yield, on-time delivery increased from 75 percent to 99 percent, customer complaints reduced by 78 percent, \$12 million saved in one year in suggestion system, 91 percent of employees said proud to work for the company, positive responses on employee attitude survey increased from 76 percent to 83 percent (Kumar et al., 2009). Parallel with the argument of Powell (1995), A. B. Escrig Tena (2001) claims that the basic argument is that TQM can contribute to the improvement of performance by encouraging the development of assets that are specific, produce socially complex relationships, are steeped in the history and culture of the company and generate tacit knowledge. All these features correspond to the conditions, which, according to the RBV, allow a sustained competitive advantage (A. B. Escrig Tena et al., 2001). According to Powell (1995) and similarly, according to A.B. Escrig Tena (2001) TQM leads to the creation of an inimitable competitive advantage due to its production of routines and guidelines which are

difficult to reproduce by the competitors. Different authors present different core competencies adopted as a result of successful application of TQM.

Researchers have concluded that TQM has a positive effect on company results (Martinez-Costa and Jimenez-Jimenez, 2009). Kaynak (2003) examines the relationships among TQM practices and the direct and indirect effects of these practices on various performance levels, Samson and Terziovsky (1999) shows this relationship in cross-sectional sense; meaning that TQM's categories of leadership, management of people and customer focus were the strongest significant predictors of operational performance and A.B. Escrig Tena et al. (2001) refers to the effects of TQM on firm competitive advantage. Research findings indicate that firm performance is an output of effectively implemented TQM practices. According to literature discussed regarding the positive relationship between TQM and organizational performance, the hypothesis to be tested can be formulated as follows:

Hypothesis 6: Total Quality Management has a positive influence on firm performance.

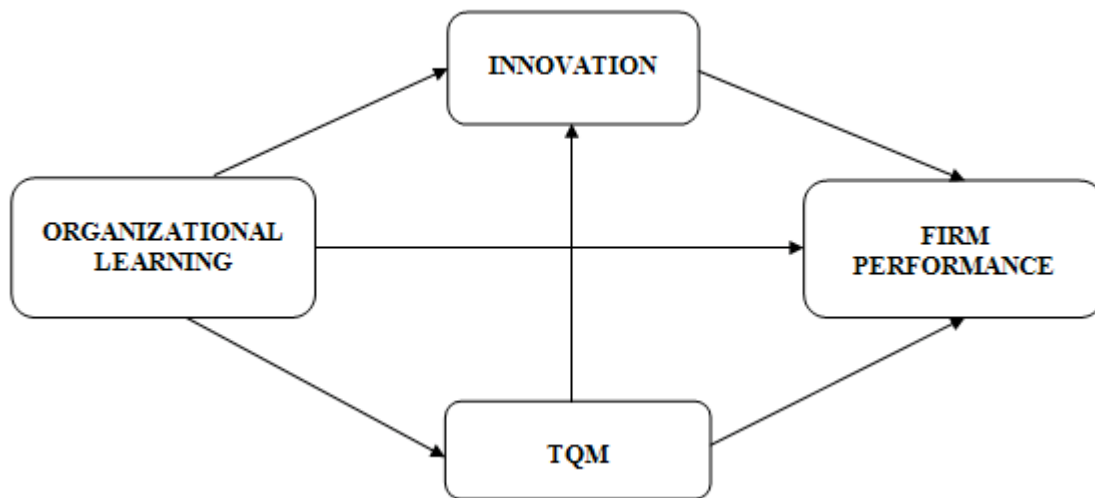


Figure 2. The Conceptual Model; the relationship between organizational learning and firm performance through the mediating roles of innovation and TQM.

Research Method

Sampling

The data used to test the hypotheses are drawn from a varied spectrum of Turkey's industries. The sample frame of the study consisted of a range of industries including; telecommunications, computer and electronics, communication, software, manufacturing and machinery, chemical, service technologies, food, and material industries. The organizations taking part in the survey have both national and international, operational domains. Yet, 27% of the firms operate on a regional level, 20.2% operate on a national basis and 53.2% of the respondent firms' operational domain consists of international borders. The initial sample consisted of 185 white collar employees in 87 firms in total. The screening criterion was established on the basis that these firms which have been selected are parts of a wide range of foreign and domestic industries both in public and private sectors. The presumption that "individual views on issues will constitute a function of their organizational roles" directed the survey of the study to be done with individuals who occupy strategic positions in their organizations who would be more knowledgeable about the strategic relationships between the inter-organizational structure (Paulraj et al., 2008). Thus the use of key informants as sources of data is standard practice in strategic management research (Paulraj et al., 2008).

The survey form prepared was subject to a pilot study in the field. Regarding the warnings and suggestions analyzed through these results the survey was transmitted to more extensive masses. The general managers of the firms were contacted by telephone as a pre-notification of the survey and were announced about the imminent arrival of the survey as well as the aim of the study. Hence this involved the assurance of confidentiality and the anonymity of the responses, the data of their company or specifically products to be undisclosed and a premise that a report of the results and implications will be sent to the respondents in case they request. For the purpose of eliminating flexibility in the survey technique which would breed inconsistency and

to provide a common understanding of the questions for each respondent the questions are constructed by multiple choice answers. Of the 185 contacted, 173 agreed to answer the survey. Yet, of the 173 returns, 49 were deleted due to incomplete and inconsistent information, leaving 124 usable returns for analysis. Correspondingly, from 72 out of 87 of the firms contacted, usable data was received for a response rate of 67%.

Measures

The methodology consistently entails the adoption of a survey research method. A survey was conducted to validate the proposed relationships ascribed in the hypotheses and to develop a reliable discussion coextending with the findings attained. To test the hypotheses, well verified measures of multi-item scales adopted from previous studies were used. All the measurement constructs were estimated through respondents' perceptual evaluation on a seven-point Likert scale, which was anchored by the end points of "strongly disagree" (1) to "strongly agree" (7). By using the parallel translation method, the items were first translated into Turkish by one person and then translated into English by another person. The two translators then jointly reconciled all differences. Subsequently the suitability of the Turkish version of the questionnaire was pre-tested by the people working in the industry. After refining the questionnaire based on interviews with the pre-test subjects the questionnaires were then distributed and collected.

The learning dynamics in the organizations which indicate shared vision, intra-organizational knowledge sharing, commitment to learning and open mindedness are measured within the questionnaire using a scale consisting of 11 questions, developed and validated by Gomez et al., (2005). Simultaneously, concerning the evaluation of learning organizations' principles some dimensions from Chermack et al., (2006) have been adapted to survey questions. Mainly, answers for knowledge transfer, its adaptation to existing organizational culture, the encouragement of the employees' innovative ideas by top management, the involvement of the employees to the management and the favorable condition for a system based approach towards firm vision of all the employees were inquired.

An inspection on the previous empirical studies on TQM alludes that researchers have defined TQM measures in numerous ways albeit they complement each other (Prajogo and Sohal, 2006). In order to tap the domain of TQM in organizations, the scale developed by Scott et al., (2008) and Bessant et al., (2001) concerning the continuous improvement section was adopted. Besides, for the instruments captivating participation, leadership, process management and customer orientation, the scale was complemented with survey questions from the studies of Vijande and Gonzalez, (2007), Costa et al., (2008), Prajogo and Hong, (2008) were assigned. The five dimensions of TQM were in total measured with 19 questions which have proven to be valid and reliable instruments representing a composite indicator of TQM .

Regarding the discourse of the employees in the organization 5 questions have been identified and used reflecting the enterprise's innovation vision. In the construction process of these questions the study introduced by S. -h. Liao et al., 2008, studies of Akgün et al., (2007) and Vijande and Gonzalez et al.'s (2007) were adhered to.

Utmost, the organizational performance measurement captured the employee satisfaction and the market situation or performance of the organization. The employees were asked to answer 8 questions reflecting the essential aspects of firm performance. The measures regarding organization's market situation and performance were adopted from Law and Ngai's (2008) previously conceptualized and validated study examining the effects of intra-organizational knowledge sharing and learning behavior to the firm performance and from Lee et al., (2008). Consequently the measures assessing employee satisfaction and general organizational performance were shaped by Costa et al., (2008).

Measure Validity and Reliability

After the survey results of 124 respondents from 72 firms have been aggregated and their validity has been determined, SPSS13.00 statistical software has been utilized throughout the data analysis process.

Factors	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Participation	5.642	0.907	1.000									
2. Intra-organizational knowledge sharing	5.274	1.004	0.441	1.000								
3. Market Performance	5.524	0.935	0.449	0.456	1.000							
4. Innovation	5.700	0.771	0.733	0.468	0.548	1.000						
5. Employee satisfaction	5.693	0.965	0.682	0.457	0.572	0.662	1.000					
6. Shared vision	5.387	0.914	0.621	0.522	0.497	0.580	0.678	1.000				
7. Leadership	5.849	0.954	0.575	0.489	0.538	0.569	0.628	0.593	1.000			
8. Process Management	5.847	0.904	0.436	0.256	0.332	0.572	0.361	0.286	0.529	1.000		
9. Continuous Improvement	5.470	1.247	0.421	0.413	0.549	0.589	0.446	0.327	0.427	0.511	1.000	
10. Customer Orientation	6.016	0.770	0.527	0.434	0.445	0.565	0.474	0.479	0.575	0.596	0.513	1.000

Table 1. Correlation of Latent variables.

Table 1 shows the correlation among all ten variables. The relatively low to moderate correlations provided further evidence of discriminant validity. Also all reliability estimates demonstrated in Table 2, including cronbach alphas, average variance extracted for each construct (AVE), and composite reliabilities, were well beyond the threshold levels suggested by Nunnally (1978), except the AVE's of intra-organizational knowledge sharing and innovation having average variance extracted slightly lower with 0.47 and 0.41 respectively. Furthermore, the squared correlations did not exceed the average variance extracted further suggesting discriminant validity. Concurrently, it was concluded that measures were unidimensional and had adequate reliability as well as discriminant validity.

Construct	Composite Reliability	AVE	Cronbach Alpha
1. Participation	0.875414	0.584484	0.819234
2. Intra-organizational knowledge sharing	0.774331	0.471176	0.651797
3. Market Performance	0.898802	0.645008	0.861815
4. Innovation	0.845911	0.413297	0.779138
5. Employee satisfaction	0.835721	0.638260	0.674008
6. Shared vision	0.874846	0.585553	0.808036
7. Leadership	0.900106	0.750363	0.831590
8. Process Management	0.852090	0.658344	0.742760
9. Continuous Improvement	0.888435	0.726538	0.822372
10. Customer Orientation	0.876708	0.589406	0.820726

Table 2. Reliability and AVE.

Further, the measures were subject to factor analysis. When all the questions included in the survey are put through factor analysis some questions are dropped and put out of analysis because they are not in the expected factor interval. The questions that have lower than 0.5 factor values are remained out of analysis. The two dimensions of organizational learning; commitments to learning and open mindedness was not supported and were accordingly dropped after the factor analysis. The dependent and independent variables in this analysis have been considered as separate. The variables regarding organizational learning are loaded to shared vision and intra-organizational knowledge sharing; those regarding TQM are loaded to, participation, customer focus, leadership, process management and continuous improvement, finally variables regarding organizational

performance are loaded to employee satisfaction and market performance as factors. Because innovation is only one factor there was no need for an additional factor analysis.

At the outset, in the section regarding general information about the organization and the respondent, nominal and serial scaling has been used. While in the nominal scaling section descriptive analysis was prevailing, in the section with likert scale questions factor analysis has been incorporated. Furthermore the impact of two or more variables on the dependent variable and the evaluation of the research hypotheses have been assessed according to the regression analysis. Reliability of a construct can be defined as the consistency and the stability of the constructs. Yet, for the estimation of internal consistency of the basic structures of the study –organizational learning, TQM, innovation, organizational performance- Cronbach Alpha value was used as suggested in the literature to be equal to or higher than 0.7 (Kerlinger, 1986). The cronbach alpha values presented in Table 2 indicate high reliability with all the constructs above 0.7, except intra-organizational knowledge sharing (cronbach α = 0.65) and employee satisfaction (cronbach α = 0.674). Though, due to the high composite reliability of the items this doesn't create a major problem.

Furthermore, to test the hypotheses, we employed regression analysis and the results revealed in Table 3. Those hypotheses are; (H1) the influence of organizational learning on innovation specifically the supported construct is; shared vision positively influences innovation in organizations, among the hypotheses involved regarding the relationship between organizational learning and TQM, (H2); shared vision positively influences participation; shared vision positively influences leadership, shared vision positively influences process management, shared vision positively influences continuous improvement, shared vision positively influences customer focus are supported. Besides, intra-organizational knowledge sharing positively influences leadership, intra-organizational knowledge sharing positively influences continuous improvement, intra-organizational knowledge sharing positively influences customer focus and intra-organizational knowledge sharing positively influences participation are the bases of the relationships between organizational learning and TQM. These results reveal that shared vision dimension of the organizational learning construct has a positive relationship with all the TQM dimensions and the intra-organizational knowledge sharing dimension of the organizational learning positively influences the four dimensions of TQM namely; leadership, continuous improvement, customer focus and participation. Furthermore, concerning the influence of organizational learning on firm performance (H3) the following hypotheses are supported, shared vision positively influences market performance and shared vision positively influences employee satisfaction. Which means firm performance is positively influenced by shared vision. In the 4th hypotheses set (H4), the t-statistic values show that TQM's relationship with innovation is suggested to be relevant with values higher than 2. Those relationships are; participation positively influences innovation, process management positively influences innovation and continuous improvement positively influences innovation. Yet leadership and customer focus has no influence on innovation. Moving towards hypotheses set 5 (H5) which presents the relationship between innovation and firm performance, innovation positively influences market performance, innovation positively influences employee satisfaction, reflects that innovation positively influences firm performance. Finally the last set of hypotheses (H6) described by the relationship between TQM and firm performance reflect the positive influence of leadership on market performance and employee satisfaction, the positive relationship between participation and employee satisfaction, and that continuous improvement positively influences market performance.

	Entire Sample Estimate	Mean of Subsample	Standard Error	T-Statistics
Customer Orientation → Market Performance	0.0290	0.1035	0.0794	0.3653
Customer Orientation → Employee Satisfaction	-0.0270	-0.0680	0.0537	-0.5024
Participation → Market Performance	-0.0580	-0.1170	0.0903	-0.6422
Continuous Improvement → Market Performance	0.3250	0.3179	0.1119	2.9051

Process management→ Market Performance	-0.1300	-0.1445	0.0897	-1.4485
Leadership→ Market Performance	0.2490	0.2703	0.1197	2.0802
Leadership→ Employee Satisfaction	0.2350	0.2368	0.0938	2.5062
Process Management→ Employee Satisfaction	-0.0980	-0.1156	0.0725	-1.3510
Continuous Improvement → Employee Satisfaction	0.0990	0.1109	0.0807	1.2277
Participation→ Employee Satisfaction	0.2400	0.2329	0.1106	2.1699
Leadership→ Innovation	-0.0030	-0.0516	0.0422	-0.0711
Process Management→ Innovation	0.2110	0.2338	0.0836	2.5242
Continuous improvement → Innovation	0.2310	0.2284	0.0871	2.6516
Participation→ Innovation	0.4270	0.4356	0.1003	4.2589
Customer Orientation→ Innovation	0.0010	0.0722	0.0623	0.0161
Innovation→ Market Performance	0.1900	0.2019	0.0927	2.0500
Innovation→ Employee Satisfaction	0.2040	0.2077	0.0905	2.2548
Shared Vision→ Innovation	0.1540	0.1502	0.0897	1.7171
Shared vision→ Employee Satisfaction	0.2870	0.2839	0.0974	2.9459
Shared vision→ Market Performance	0.1510	0.1698	0.0877	1.7224
Intra-organizational knowledge sharing → Innovation	0.0500	0.0691	0.0443	1.1281
Intra-organizational knowledge sharing→ Employee Satisfaction	-0.0140	-0.0604	0.0462	-0.3032
Intra-organizational knowledge sharing → Market Performance	0.0790	0.1060	0.0704	1.1214
Shared vision→ Leadership	0.4640	0.4546	0.0890	5.2159
Shared vision→ Process Management	0.2100	0.2068	0.1006	2.0884

Shared vision → Continuous Improvement	0.1540	0.1676	0.0896	1.7194
Shared vision → Participation	0.5370	0.5341	0.0878	6.1137
Shared vision → Customer Orientation	0.3470	0.3431	0.0829	4.1842
Intra-organizational knowledge sharing → Leadership	0.2460	0.2614	0.0889	2.7686
Intra-organizational knowledge sharing → Process Management	0.1460	0.1632	0.0939	1.5556
Intra-organizational knowledge sharing → Continuous Improvement	0.3320	0.3286	0.0860	3.8593
Intra-organizational knowledge sharing → Participation	0.1610	0.1618	0.0771	2.0881
Intra-organizational knowledge sharing → Customer Orientation	0.2530	0.2654	0.0914	2.7688

Table 3. Results.

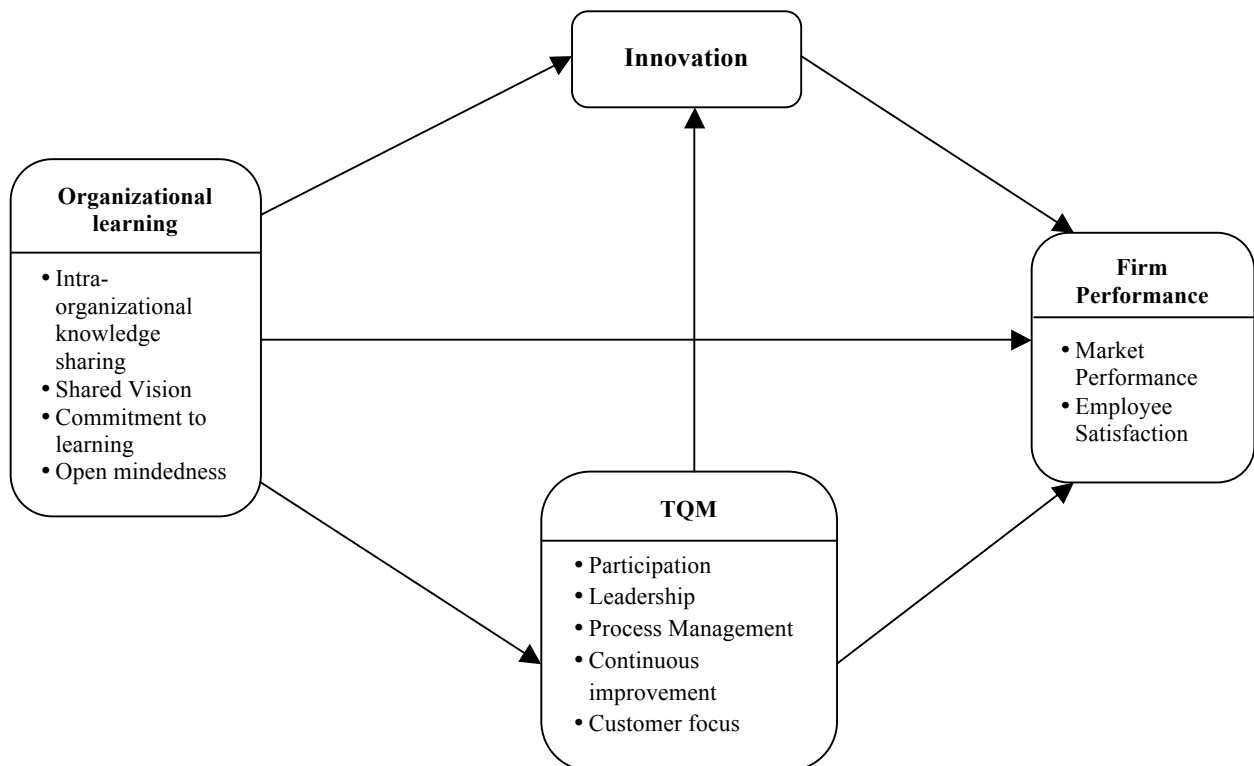


Figure 3. Research Model.

CONCLUSION

The main purpose of this study has been to explore the relationship between organizational learning, TQM, innovation and firm performance. This study develops a platform through which organizational learning shapes the strategic management of the organizations through the role of innovation and TQM for the aim of achieving

improved firm performance. Significant TQM can be obtained through the role of organizational learning. Parallel to that TQM contributes to the achievement of innovation. In addition, innovation and TQM seem to have significant influence on firm performance as well as the positive relationship extracted between organizational learning and firm performance.

The findings of the study highlight the idea that, mainly organizational learning, innovation and TQM and have began to be established as legitimate and promising pivotal factors creating firm performance. Yet in the case of the emerging market of a developing country, Turkey the crucial role of intra-organizational knowledge sharing as an element of organizational learning and customer focus as a dimension of TQM have not been fully emphasized. Though the positive effect of intra-organizational knowledge sharing on TQM cannot be underestimated, its influence on innovation and firm performance seem to be minimal. Yet country profile constitutes a predictive indicator in the analysis of the results. According to a research on social values in Turkey the trust between people is very low in Turkey which results in the direction of the personal efforts to prevent any type of sharing including knowledge (Esmer, 1999). Yet customer focus is also related with the issue of trust in two ways. If the customers are not trusted enough their contribution to firm innovativeness as well as performance would be limited. Since customer focus is driven by “customer ideas and suggestions” to achieve innovation and performance, if trust lacks it results in the absence of the influencing power of customer focus on innovation and firm performance. Second, if customers don't trust the company, their contribution to processes and products will not be practical. Accordingly, it's conceived that both intra-organizational knowledge sharing and customer focus should be effectively managed for their benefit to be extracted. Concurrently, a further area to be researched appears to be “how to manage knowledge sharing and customer focus” in developing countries?” Furthermore the results of this study reveal strong positive relationship of organizational learning with TQM and firm performance. Besides, positive relationship is obtained between TQM and innovation and TQM with firm performance. Additionally innovation positively affects the two dimensions of firm performance.

Like any empirical research effort, this study contains some methodological strengths and limitations. First, there was not an industrial separation while evaluating data; results may differ for different industries. Second, there is not a separation concerning the size or the industry of the firms involved, accordingly the results may differ for SMEs and large sized organizations as well as for different industries. Third, the results reported emerge from a local area; results may differ for firms located in different areas operating in different cultural, environmental and political conditions. Despite these limitations this study provides important implications in the context of a developing country from theoretical and practical perspectives.

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KNOWLEDGE MANAGEMENT IN PROVIDING VALUE ADDED TO ORGANISATIONS

**Edward Wong Sek Khin
Abdul Razak Ibrahim**

University of Malaya

ABSTRACT

This study examined an in-depth, interpretive case study investigating the organisational impacts of a knowledge management and groupware information system named "Web-based Legacy EDI Groupware", abbreviated as "WebLegacy". In particular, the way in which WebLegacy operates as an agent in converting tacit knowledge to explicit knowledge, its organisational impact, success factors, and success indicators will be explored. This study is based on the framework and analysis used by Daniel and Graeme (1999) to examine knowledge management in the health industry. The paper will examine one organisation in Malaysia using WebLegacy. The study examined an automotive company who contracted a local external website design consultant to implement WebLegacy on their sites. In addition to interviews with the companies, interviews with the website design Consultant Company will be conducted in order to gain an alternate perspective of topics and issues raised in the research.

Keywords: Knowledge Management Systems, Web-based Legacy EDI, Organisational Impacts, and Information Systems.

INTRODUCTION

Knowledge management research has increasingly become an important concern in decision support that create value for organisational strategy and structure in meeting the challenges of the information age. Knowledge is information combined with experience, context, interpretation, and reflection. Knowledge is a high value form of information that is ready to apply to decisions and actions (Davenport, 1998). This research study will explore the practical reality of the subject of knowledge management system by focusing on a tangible, pragmatic entity, the knowledge management project. Hence, it is significance for the need of a successful knowledge management project to be in place as one of the indicators of the success of the firm is its increasing pool of knowledge.

Knowledge management may also be seen as an extension of information system management whereby the organisation benefits from the more effective use of information/knowledge. This may or may not have a strategic dimension (Remenyi, D. 1999). According to Remenyi, D. (1999) knowledge management may also been seen as tool by which the organisations core competencies may be focus and developed. This provides knowledge management with a strategic focus. As an extension of information system management, knowledge management is concerned with decision support systems, data warehousing, data mining and groupware systems. Knowledge management is also closely associated with Intranet applications.

Groupware application is also been seen as an application that can facilitate organisation-wide knowledge management. It is also able to provide human with an unprecedented global many-to-many medium to exchange information. According to Hauben & Hauben, (1997), individuals around the world are now able to broadcast their isolated opinions and gain feedback from a diversified population (Hauben & Hauben, 1997). They also suggest that knowledge management may be seen as an extension of information system management, which utilises the exchange of business information through an IT network. This entails the exchange of information electronically between separate organisations, or between an organisation and its customer, business to business or business to customer. Such a network of exchanging information is crucial to support successful business partnerships.

However, in order to achieve knowledge superiority, an organisation must first understand its knowledge asset, ie the value of its knowledge, how well that knowledge is being applied, and the true cost of its IT. This means

the organisation needs to establish a proper knowledge management project that provides strategy for managing and exploiting such knowledge.

LITERATURE REVIEW

Groupware Application and Knowledge Management

In the paper by Gunther, L (1994), the author says that WebLegacy is about 'better business practices', both in the way an organisation manages its internal operations and more directly in the way it manages its relationships with customers and suppliers. He also mentions that such WebLegacy encourages, or more often forces companies to re-examine business processes and trading relationships. As a result, WebLegacy is seen as a tool used to transmit standard structured messages electronically from the computer application in one location to another computer application in another location. Thus WebLegacy is an 'enabling technology' that allows organisation to meet its business goal

Previous Empirical Research

In this section, a framework for analysing a knowledge management project that involved the WebLegacy, based on previous empirical research is discussed.

The framework for the knowledge management project referred to above incorporates four stages: the objectives, the strategies, the success indicators and the success factors (adapted from Daniel, L and Graeme, G, 1999).

First stage, the objectives of knowledge management project.

Objectives define what a knowledge management project is trying to achieve.

According to Davenport (1998), knowledge management projects can provide four types of objectives that allow organisation to achieve knowledge superiority. They are as follows:

- "Creating knowledge repositories; WebLegacy focuses on creating structured repositories to store explicit knowledge;
- Improving knowledge access; WebLegacy focuses on providing access to tacit knowledge and facilitating its transfer between the individuals;
- Enhancing the knowledge environment; WebLegacy focuses on the establishing an environment conducive to knowledge creation, transfer and use;
- Managing knowledge as an asset; WebLegacy involves in measuring the value of the knowledge assets" (adapted from Daniel,L and Graeme, G, 1999).

Second stage, the strategies of knowledge management

Strategies define the methods for achieving the objectives.

According to Hansen et al (1999), there are two broad types of strategy for implementing knowledge management (Hansen reference in Daniel, L and Graeme, G, 1999). They are as follows:

- "Codification strategy: codification is about turning tacit knowledge into explicit knowledge.
- Personalisation strategy: personalisation focuses on tacit knowledge and involves the sharing of knowledge directly between people" (adapted from Daniel, L and Graeme, G, 1999)".

Hansen et al (1999) found that "all companies use elements drawn from each strategy, either focus on one type or focus on both together. The choice of strategy was dependent on the competitive strategy of the organisation" (Hansen reference in Daniel, L and Graeme, G, 1999).

Third stage, the success indicators for knowledge management project

Success indicators measure the effectiveness of a knowledge management project, which includes the dependent variables or the outcome measures.

According to davenport et al (1999), he identified four success indicators for knowledge management projects (Davenport reference in Daniel, L and Graeme, G, 1999). These are as follows:

- “growth in resources attached to the project. This refers to the increases in number of people or the size of the budget assigned to the project over its lifetime;
- growth in knowledge content and usage. This is measured by increase in the volume of knowledge stored in repositories;
- organisational initiative. This means that if the projects are the initiatives of one or two individuals they are less likely to succeed than projects that originate in organisation-wide initiatives;
- financial returns. This refers to the financial return either for the project itself or for the organisation as a whole” (adapted from Daniel, L and Graeme, G, 1999).

Stage four, the success factors for knowledge management projects

Success factors define the conditions that lead to success in knowledge management projects. According to Davenport et al (1998), there are eight types of success factor for implementing knowledge management project (Davenport, (1998) reference in Daniel, L and Graeme, G, 1999). They are as follows:

- “ the link to economic performance. This involves money saved or earned.
- technical and organisational infrastructure. This refers to the level of involvement through technology and organisational infrastructure for the success of knowledge management project;
- flexible knowledge structure: finding the right balance of knowledge repositories to a project;
- knowledge-friendly culture: finding the aspects of a knowledge friendly culture;
- clear purpose and language: clearly defined communication and objectives are important for success;
- change in motivational practices: incentives and rewards are important to motivate people;
- multiple channels for knowledge transfer. This means providing opportunities for face to face contact as well as electronic forms of communication;
- senior management support. This implies providing funding and other resources for the success of the organisation” (adapted from Daniel, L and Graeme, G, 1999).

In summary, the literature review above has attempted to provide an overview of the empirical studies by Daniel, L and Graeme, G (1999) pertaining to knowledge management projects. It explored the success factors, the success indicators, the strategies and the objectives. It was then synthesised into an analysis framework, and was used as the basis for analysis of the case study data.

RESEARCH OBJECTIVES

Specifically, the research objectives are to determine the followings:

- To what extent can the adoption of a knowledge management project, which involves WebLegacy, serve as a mean to support knowledge management in providing value creation to the organisation?
- If so, how and why does the adoption of WebLegacy act as a vehicle to support knowledge management in providing value creation to the organisation?

Discussion of Case Scenario

Organisation #M is a family owned automotive group. The company was established to offer Klang Valley car buyers an innovative option to serving vehicle needs, and has been in business since the mid 1980's.

To research the question raised above, the authors held preliminary discussions with organisation #M's knowledge manager and its external website design consultant's staff. Key players were identified from organisation #M and Consultant Company and these individuals (the Technical Supervisor, Operations Director and knowledge manager) were interviewed.

Analysis Framework

According to Yin (1994), it is important to ensure adequate rigour in research design when utilising case research. It is proposed that the analysis framework (adapted from Daniel, L and Graeme, G, 1999) shown in Figure 1, which incorporates the objectives, success indicators and success factors of Davenport et al (1998) and the knowledge management strategies identified by Hansen et al (1999) will be applied to this study.

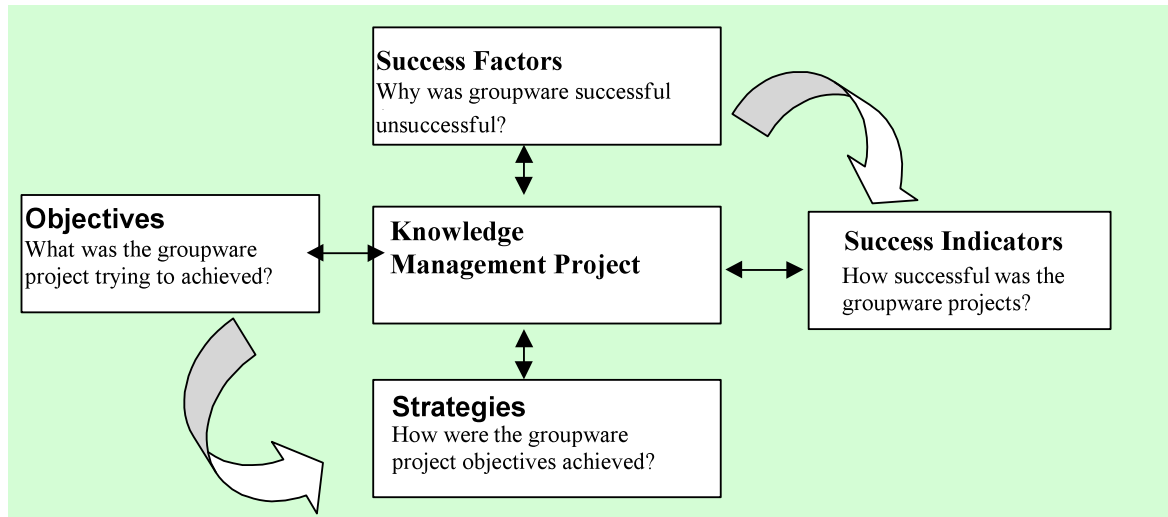


Figure 1: Proposed Analysis Framework (adopted from Daniel, L and Graeme, G, 1999)

PRELIMINARY FINDINGS AND CASE STUDY ANALYSIS.

Stage One; Objectives

What was WebLegacy project trying to achieve?

Table 2: What was WebLegacy project trying to achieve?					
	Knowledge from internal , external source				
Objectives KM project	Operations staff	Existing Customers	Marketing staff		
Create knowledge repositories	Provide 24hrs accessibility/accurate information provided	Provide quick response on request/queries	Information easily accessible to public		
Improve knowledge access	Facilitate transfer of tacit knowledge between individual	Increase in Satisfaction	Facilitate transfer of tacit knowledge between individual		
Manage knowledge as an asset	Moderate	Not sure	Moderate		
Enhance knowledge environment	Improve conducive environment for sharing knowledge	Increase in Satisfaction	Improve conducive environment for sharing knowledge		

(Table 2: Matrix showing the relationship of objectives of Knowledge Management and WebLegacy. Adapted from Daniel, L and Graeme, G, 1999).

The above indicator provides the finding for WebLegacy in trying to achieve. These are as follows:-

- In the scope of creating knowledge repositories, it created a virtual ‘information library’ accessible 24 hours a day to staff across all branches. The significant improvement observed was due to the external knowledge

(knowledge from an external source). This means that improved information exchange can lead to intangible benefits, cost reduction and quality improvement efforts.

- In the scope of improving knowledge access, it has helped to facilitate the transfer of tacit knowledge between the individuals.
- In the scope of enhancing the knowledge environment, it has helped to induce conducive environment for sharing knowledge.

In summary, WebLegacy has successfully created a knowledge repository for knowledge transformation, sharing, and knowledge creating processes for organisation #M. The WebLegacy entails staff of organisation's # M tacit knowledge, which resides in many heads can now be codified into formulated knowledge resides on electronic form. In addition, WebLegacy has also proven to be successful in allowing information sharing and collaboration across departments, and functions.

Stage two; Strategies for WebLegacy project

How were WebLegacy objectives achieved?

	Knowledge management project components.					
Strategies for the KM project	Functionality data bases, eg. operational & administration	External network, eg. supplier and customer focus	Listservers eg endusers			
Codification strategies	Not codifying because providing access to already codified knowledge	Not codifying because providing access to already codified knowledge	Not ascendable			
Personalisation strategies	Not ascendable	Not ascendable	Involves exchange of ideas and experiences between individual endusers.			

(Table 3: Matrix showing the relationship of strategies of Knowledge Management and WebLegacy groupware. Adapted from Daniel, L and Graeme, G, 1999).

To answer the question of how WebLegacy objectives were achieved. It is necessary to explore the three major of components of WebLegacy. These are as follows: functionality data bases, eg. operational and administration; external network, eg. suppliers and customers; and listservers, eg. endusers. The list server component fits into the personalisation strategy because it involves the exchange of ideas and experiences between individuals ie. endusers. However, the other two components do not fit into either of the strategies, ie. The codification strategy or the personalisation strategy. This means that both the functionality databases and external networks focus on explicit knowledge, and are not concerned with codifying knowledge. However, the functionality data bases and external network components provide only access to already codified knowledge resides in the electronic form.

Stage three; Success indicators for WebLegacy

How successful was WebLegacy project to organisation # M?

With respect to organisation #M:	Pre- adoption of groupware	Post- adoption of groupware	One years from post-adoption of groupware
Growth in resources attached to the project	Low	Improved	High
Growth in knowledge content and usage	No online discussion	Increase online discussion	Exponential increase online discussion/request /Business Improved

Organisational initiative	Not Appealing	Satisfaction	Increasingly Appealing/ satisfaction
Financial return	Stagnant	Indications of cost reduction	Business Improved/profit increased

(Table 4: Matrix showing the relationship of success indicators of Knowledge Management and WebLegacy. Adapted from Daniel, L and Graeme, G, 1999).

The above indicator provides findings on the level of success for WebLegacy in organisation # M.

- In regards to the scope of growth in resources attached to the project, the estimated total costs of ownership for implementing the project was \$98,400. However, it was estimated that the annual budget of recurring or operational costs would be \$24,000 per annum.
- In regards to the increase in the growth in knowledge content and usage, there was an exponential increase in information usage since the post adoption of WebLegacy.
- In regards to the extent of organisational initiative, there seems to be greater levels of satisfaction on the part of end user. Customers' complaints have dropped significantly since the adoption of WebLegacy in the organisation.
- In the regards to the size of the financial return, there seems to have been some reduction in cost, as WebLegacy is able to integrate web EDI with their inventory, accounting and order entry system. This means that the integration brings about an increase because it greatly decreases human involvement in information flow, thus making business processes simpler, faster, cheaper and less error prone.

In summary, the success indicators have indicated that a significant impact to organisation # M has occurred. They have improved the quality of their management decision making and thereby improved the quality of service provided to their customers.

Stage four; Success Factors for WebLegacy.

Why was WebLegacy successful or unsuccessful to organisation # M?

With respect to organisation #M:	Pre- adoption of WebLegacy	Post- adoption of WebLegacy	One years from post-adoption of WebLegacy
Link to economic performance	Normal	Indication of Improvement in financial savings	Strong Indication of Improvement in financial savings
Technical and organisational infrastructure	Normal	Increased involvement in both Intranet & Internet technology & WWW infrastructure	Exponential increased involvement in both Internet & Intranet technology and WWW infrastructure
Flexible knowledge structure	Not Appealing	Satisfaction	Increasingly Appealing/ satisfaction
Knowledge-friendly culture	Negative attitude to knowledge, organisation learning low, innovation low	Towards positive attitude to knowledge, organisation learning increase, innovation increasing	Positive attitude to knowledge, organisation learning increase, innovation increasing
Clear purpose and language	Not ascendible	Objectives being defined in company mission statement	Objectives being defined in company mission statement
Change in motivational practices	No incentives and	Staff are motivated	Staff are motivated by

	rewards system	by incentives and rewards system	incentives and rewards system
Multiple channels for knowledge transfer	Confined to face to face	Internet access for customer request	Face to face , electronic forms of communication
Senior management support	Management participation low	Indications of management support increases	Indications of management support increases

(Table 5: Matrix showing the relationship of success factors of Knowledge Management and WebLegacy. Adapted from Daniel, L and Graeme, G, 1999).

For organisation # M, the findings of the success factors are as follows:-

- In regard to the extent of linking to economic performance, this project has saved significant amounts of money for organisation # M. However, the estimated total costs to the owner for implementing the legacy EDI groupware project was \$98,400. It was anticipated to produce an increase of annual sale of RM \$ 3 million (from RM \$10 million to RM \$ 13 million) a year after implemented WebLegacy.
- In regard to the scope of technical and organisational infrastructure, this project used Internet and Intranet technical infrastructure, and the World Wide Web.
- Concerning the degree of flexible knowledge structure, the project involved different levels of structure of knowledge content. Some have sophisticated indexing structures, eg. information generated from the integration with the internal accounting and inventory system or information transformed through search engines.
- In the scope of knowledge friendly culture, there was an indication of positive attitude to knowledge sharing particularly from suppliers and among other staff. For example, supplier coordination, including smooth flows of information provides greater information linkage, and able to gain a competitive advantage over their rivals.
- In the scope of clear purpose and language, the project has provided staff and suppliers with access to on-line inventory request to support in inventory turnover. It also provided speedy information sharing with customers.
- In the scope of motivation to share knowledge, the project has successfully proven that staffs were motivated to share knowledge through an incentives or rewards system.
- In the scope of multiple channels for knowledge transfer, the project has provided two channels for knowledge transfer, both electronic: through the Internet for customers to access to the latest product information and through the listservers for staff to share knowledge and experiences amongst individuals.
- Assessing the extent of senior management support, the project has promoted and secured active participation among management.

In summary, WebLegacy has satisfied most of the eight success factors defined in the framework. WebLegacy has also successfully offered cost savings to organisation # M, which flow from improved information exchanges between its customers and its suppliers.

CONCLUSIONS

Summary of Findings

In this study it has been demonstrated that WebLegacy has successfully offered infrastructure to organisation # M, which has supported the acquisition of knowledge and enhance the environment in which knowledge artifacts are created and managed. Several reasons are associated with the significant of WebLegacy particularly to organisation # M.

- WebLegacy is identified as the most popular application used by staffs of organisation # M. It is widely noted as being helpful in its virtual office environment as its geographically dispersed branches can collaborate and exchange information.
- WebLegacy is able to provide network tools such as shared, indexed and replicated document databases and discussion threads, as well as shared white boards, joint document editing capabilities and full duplex, multimedia communication features. These tools serve to mitigate collaborative losses.

- Substantial cost savings result because of improved information exchanges between organisation # M, its suppliers, and its customers. These tools serve to add value to organisation # M products and the services to its customers. They also help organisation # M to gain a competitive advantage over its rival.
- Using WebLegacy to do business in the long run, may enable organisation # M to relinquish its control over its suppliers.

WebLegacy was chosen as a mean of supporting knowledge management in providing value creation for organisation # A, because it was believed that this project was able to provide a strategy for managing and exploiting knowledge. This project also serves to help organisation # A in understanding its knowledge asset, ie the value of its knowledge, in assessing how well that knowledge is being applied, and the true cost of its IT.

Limitations and Directions for Further Research

The approach used in this paper is geared to address factors affecting WebLegacy by using an analysis framework (proposed by Daniel, L and Graeme, G, 1999). It does not propose to build a new model that provides a new way of looking at IT investments that will help to identify its benefits. This refers to a model that is able to address a new focus of responsibility for the identification and delivery of IT investment benefits. However, the factors that have been combined into Daniel and Graeme's model that describe and explain the drivers and critical success factors for knowledge management project implementations, requires further testing for thorough empirical validation.

The work outlined in this paper may encourage other IS scholar to formulate a model that can capture the information reflecting the perception and practice of the Adoption Electronic Commerce Knowledge Management Project. In particular, it would be useful to identify the internal or external environment factors affecting the adoption of them and their degree of influence. (Length of paper is 3630 words)

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LINKING DYNAMIC CAPABILITIES AND DIGITAL TECHNOLOGIES: A CASE STUDY OF SMALL FIRMS IN THE UK AUDIO VISUAL SECTOR

Keith Randle
Mariana Dodourova
University of Hertfordshire, UK

ABSTRACT

The Creative Industries are acknowledged as a significant actual and potential wealth generator (Delors, 1993). However, compared with industrial manufacturing, finance or services there has been relatively little research on them, especially from an organisational point of view (Scase and Davis, 2000). This paper presents the findings of an empirical study of the impact of digital technologies on small firms in the audiovisual sub sector of the creative media industries in the Eastern Region of the UK. The study contributes to our knowledge of the sector through examining how digital technologies are changing the way skills are acquired in an industry where individuals mainly “learn by doing” (Gregulis, 2010).

The findings demonstrate generally positive associations with digital technologies. Yet, the latter are also perceived by owner managers as a threat eradicating the market entry barriers of high cost equipment and highly developed occupational skills. Perhaps paradoxically, the study also identifies a very significant skills shortage in the SMEs operating in the Film and Digital Media industry. The study highlights the problems related to the acquisition of skills in small firms, during periods of rapid technological change and the contrasting processes of de-skilling and multi-skilling.

INTRODUCTION

At both a national and regional level, the creative industries are increasingly recognised for their existing and potential contribution to GNP and have been described as ‘at the leading edge of the movement towards the information age’ (Scase and Davis, 2000).

The East of England Region

The East of England is acknowledged internationally as a centre of excellence in the creative industries, specifically in film, television, animation, interactive media, design (graphic, packaging, product and multimedia design), and in the production of corporate video presentations and commercials. The region has one of the most highly qualified labour markets in the UK and is one of the main centres of the wider creative industries in the UK (City University/DTZ Pieda, 2002). There are three main concentrations of firms working in these areas: around West Hertfordshire (film), Norwich (TV and animation) and Cambridge (ICT and interactive media). Employing some 145,000 people in total, the creative clusters around West Hertfordshire and Cambridge are significant wealth generators for the East of England Region and account for one-tenth of the UK’s total creative and media exports, by value (Screen East 2002).

West Hertfordshire provides the location of a number of important studios, the county is home to six commercial studios, and film has been the fastest growing of the creative industries. Almost 50% of all UK commercial studio production facilities are based in the Region and filmmaking traditions go back to the early part of the twentieth century. It has been estimated that around 125 companies are involved in film, television production, animation and new media production (Screen East 2002).

Independent television production has developed around the Regional broadcaster, Anglia Television in Norwich. Animation forms an emerging sector in Norfolk ranging from the more basic animation required for children’s television through to the production of state of the art avatars (Screen East 2002, Appendix 3) Around Cambridge is a computer development and interactive software cluster, a centre of excellence producing

intellectual property and patents which already contribute to the next generation of content rich products and services for media producers and consumers.

While acknowledging film, television and the interactive software industries in the UK as growth sectors with 5.8% of the national workforce actively employed in occupations related to film, television, radio and video (ONS, 2001), it is also important to acknowledge that creative industries are not so significant in overall employment terms (except where ICT is concerned) as to figure amongst the DTI's ten recognised industrial clusters in the Eastern Region (DTI, 2001). Overall growth in employment also shields significant variations by sector. The DTI reports that there is a 'small local concentration of the film industry in Hertfordshire' which is actually an extension of the London (Soho) film industry (2001:7). However, the region is significantly underrepresented in e-commerce, television and film and video production. Nevertheless, it has been suggested that employment growth fails to reflect the very significant increases in output growth in these industries, up to 16% in 1998 (UKFC 2003).

In terms of national employment patterns, re-regulation and liberal market reforms during the 1980s, combined with new technologies, restructuring and incentives to self-employment and small business formation, led to a high degree of industrial fragmentation and growth in freelance working, self-employment, partnerships and other owner-managed enterprises (Baines 1999, Pratt 1977, Scase 1995), and away from employment in cultural and media related occupations in the UK. In 2005, of those working in independent production for television 61% were freelance or self employed (Skillset 2005a) and of those in film production 63% were on fixed term contracts (Skillset 2005b). 51% of those working in television production worked in more than one sector (Skillset 2005a) generally this means independent film, video or commercials where skills are more interchangeable.

The Eastern Region reflects this national picture, characterised by a small number of large employers and a large and growing number of small businesses and freelance workers who cluster together on an opportunistic project-by-project basis, giving rise to an 'hourglass shaped' industry (Deuze 2007). The average size of Creative Media firms in the Region is below the UK average with most being small or micro businesses - the majority of companies employing six or less persons (Screen East 2002) and consisting of an average of four. Around 60% of the workforce is estimated to be freelance or sole traders, reflecting Skillset's national figures.

The sector then can be characterised as fragile and fragmented, comprised largely of small independent production companies which operate as cottage industries. The particular characteristics of firms in the film sector create a unique set of problems for, amongst others, regional development and support agencies with the fragmented nature of the sector often making intervention strategies by providers difficult to execute. Long-term survival of these businesses is a key issue for the film and digital media industry, with business failure common.

Training and the Creative Media Industries

The most common route for new entrants onto the UK creative media labour market is by a 'Beckerian, learning-by-doing process where skills are picked up informally and without certification' (Baumann 2002:31) and where 'assistantships' rather than formally structured apprenticeships represented the route into the industry of nearly half of entrants (Dex et al, 1999).

Nevertheless the sector has an undeniably highly qualified workforce. According to Skillset a quarter of the audio visual workforce in the UK holds a media degree, with 66% of the industry being educated to graduate level. This compares with 16% of the UK workforce as a whole and is particularly evident amongst the younger members of the workforce, suggesting a continuing upward trend. However, a report examining the transition from college to work by film and audio visual media graduates in London (Holgate 2006) suggests that graduates themselves are frequently critical of the lack of practical training in the courses they have followed and this accords with the views of some employers interviewed during the present study.

The Skillset Workforce Survey (2003) found an overall lack of training in the creative industries, particularly amongst freelancers. The difference between freelancers and employees in regard to access to training was significant, with only 44% of freelancers receiving training compared to 60% of employees. 94% of freelancers who sought training experienced barriers to receiving it, such as the fear of losing work or earnings, lack of information and high course fees.

However, there have also been voices arguing the case for autodidacticism in the industry, where the technology has become less costly, lighter and easier to use and the opportunities to use, for example in the internet, to learn

filmmaking skills have increased considerably. Film Director Anthony Minghella, comments that as a result of digital technologies "...the means of production are going to be surrendered to almost anybody out there." (The Guardian, 2005: 9) suggesting a democratisation of the practice of film making with increasing numbers having access to the means of making films and presumably the skills required to do so.

The Impact of Digital Technologies

The speed of technological change in general and digitalization in particular in media industries during the last two decades has been overwhelming, with new enabling technologies being introduced not over decades but within months. Digitalisation has been defined as the process underlying the so-called multi-media revolution whereby digital technologies are gradually replacing earlier mechanical technologies (Von Tunzelman, 1995). Digital technologies are now having an impact upon every stage in the motion picture value chain from script development through to production, post-production, distribution and exhibition. Technologies in the pre-production, production and post-production stages of film-making have developed rapidly in recent years, with the use of Digital Video now common and non-linear PC based editing almost universal. The technology exists to shoot, edit, distribute and exhibit a movie entirely digitally (Culkin, et al 2003).

Digital technologies have been readily embraced for their versatility and cost efficiency. The accessibility and affordability of digital film and editing equipment has created an environment where clients and consumers can themselves now purchase high standard prosumer (professional/consumer) camera equipment, shoot & edit film using standard PCs and software and achieve reasonably professional results. The decrease in the prices for professional equipment makes the current situation, where access to significant capital is no longer a barrier to entry, evident. Costs have fallen from £103,000 per digital editing suite (hardware and software) in 1994 (Screen Digest, 2003) to around £3000 in 2004.

Moreover, the growth explosion of the creative industries sector might be explained, at least in part, the dramatic increase in work productivity under the influence of digital technologies, which in turn has led to the development of new spheres of consumption, both in knowledge-related and leisure activities.

However, studies have also suggested that the impact of digital technologies on the creative industries sector has been mixed. It has been argued that the rapid introduction of new digital technologies has transformed media markets into moving targets where firms are likely to be faced with increasingly dynamic competition. This situation poses vital questions concerning the set of skills and capabilities that can enable firms to adapt and compete successfully in the new context. Baumann (2002) comments that observers have speculated on how the labour market will supply the workforce needed for the continuing growth of the visual media – and in particular TV - industries, with Sparks (1989) and Varlaam et al (1990) forecasting a dramatic future shortage of skilled employees for these industries. Indeed, in the particular context of the creative industries in the East of England, the retention of graduates and the attraction of new graduates from elsewhere are two key challenges faced by the sector despite, or perhaps even exacerbated by, its close proximity to London.

Moreover, there is also an argument that the convergence of digital content production has blurred traditional job profiles and consequently led to the multi-skilling of individuals (Cottle and Ashton 1999). While access to training suppliers and the quality of training are key issues in the creative industries generally (City University/Pieda Consulting 2002), these become even more significant when the speed of technological change is rapid, as with the adoption of digital technology by the modern film industry. A recent study on the implications of new technology for the skill and training needs of small to medium sized printing firms (Smallbone et al 2000) showed that small firm survival ultimately depends on a systematic and structured approach to training.

Shooting a film using analogue techniques has traditionally been constrained by two factors; technical/professional know-how and the economic limits of the budget. Both of these constraints are directly related to shooting with film stock. Geuens (2002) characterizes traditional filmmaking as a time consuming and expensive process that requires a high level of professionalism and concentration from every person involved, with the crew being constantly confronted by obstacles which they learn to overcome through meticulous preparation, followed by the continuous exercise of exacting craftsmanship. He goes on to argue that digital filmmaking is eradicating these constraints which effectively maintained the quality of the product. The low cost of digital capture has led to a less professional and focussed approach characterised by greater experimentation and an attitude to problem solving on set which can perhaps be epitomised by the expression 'we'll sort it out in post'. This suggests that the ability to manipulate the final image using digital technologies is so great that the

shortcomings of what is shot on set in principal photography do not now form a major constraint on the quality of the finished product. Films can consequently be made by what this author (Geuens 2002) regards as second rate personnel and through a trial and error approach. He sees a radical discontinuity where digital represents a disruptive technology which will revolutionise the industry.

There is a counter argument to this which can be summarised as: by making learning loops faster digital video offers a higher degree of flexibility and freedom to creative talent and improvisation therefore does not lead to a lower quality product but to greater innovation and a more creative solution.

A further argument is that the 'digital revolution' is really a 'digital evolution' with technical challenges still ensuring that digital filmmaking has some way to go before it can achieve the aesthetic quality of analogue film. However, products other than feature film may benefit from technological change at an early stage while the production values expected of mainstream cinema require considerable maturity in the technologies employed. The independent production sector, then, may be less immune to the pressures associated with technological change. While this could be characterized as 'dramatic' rather than 'radical' there appears to be agreement that 'profound changes in jobs and labour relations in the content industries are coming one way or another' (Ducatel, Burgelman and Bogdanowicz 2000: 516). This is likely to impact on both small firms and the majors.

The routines that shape labour relations in filmmaking are unlikely to change or be substituted by new technologies over night. Rather, technology will be adapted in a way that is consistent with existing structures and domains of power and expertise. As the literature on routines (Nelson and Winter 1982; Andersen 2003) and temporary organisation (Grabher 2004) suggests, routines are 'selfish' and replicate themselves beyond organisations, with process knowledge in project based industries such as the audiovisual industry, being remembered in networks. A change in technology is adopted along the existing skill base in these networks, in a path dependent way.

However while a 'business as usual' position may be applicable to the case of the major film studios, producing multi-million dollar feature films the realities of the UK regional film production/post-production sector are somewhat different. In the regional context work on feature films represents only a small proportion of the work carried out by companies and the threat to livelihoods is more apparent and more immediate.

Hence the question that arises and, to the best of our knowledge, has not been addressed by previous studies, is what is the impact of rapidly changing digital technologies on fragmented industries dominated by small and micro enterprises such as the creative industries in the East of England? Answering this question will contribute to both academic debate and industry knowledge through advancing our understanding of the implications of digitalization. The findings can be deployed to develop comprehensive guidance to skill and capability development for industry practitioners and education and training providers. Moreover, they will provide regional development and support agencies with valuable insights into the problems and issues pertaining to the development of skills and capabilities by small enterprises in this highly potent sector.

LINKING DYNAMIC CAPABILITIES AND DIGITAL TECHNOLOGIES

Using the dynamic capabilities view as an underlying theoretical framework, our study examines the impact of digital technologies on small firms in the creative industries sector with particular emphasis on their ability to adapt to the new context through developing and deploying new competencies. Teece and Pisano (1994) introduced a 'dynamic capabilities' approach to strategy, which underlines the importance of dynamic change and learning. The development of this framework flows from a recognition that strategic theory is replete with analyses of firm-level strategies for sustaining and safeguarding extant competitive advantage but has performed less well with respect to assisting the understanding of how and why some firms succeed in building competitive advantage in regimes of rapid environmental change while others do not. Teece et al (1997:516) define dynamic capabilities as the firm's ability to 'integrate, build, and reconfigure internal and external competencies to address rapidly changing environments'.

The dynamic capabilities approach is especially relevant in a Schumpeterian world of innovation-based competition and 'creative destruction' of existing competences. It emphasizes two aspects: the shifting character of the environment, and the key role of strategic management in appropriately adapting, integrating and re-configuring internal and external resources and towards the changing environment (Teece and Pisano, 1994).

Thus the primary focus of this approach is on the mechanisms by which firms identify, accumulate and deploy firm-specific skills and capabilities, and on the contextual factors that influence the rate and direction of this process.

The occurrence of technological change often requires redeployment of resources to develop capabilities suitable for the new technological regime (Tushman and Anderson, 1986). Teece (1988) argues that capabilities are sets of differentiated technological skills, complementary assets, and organizational routines and capacities that provide the basis for a firm's competitive capacities in a particular business. In essence, capability is a measure of a firm's ability to solve both technical and organizational problems. Capabilities typically have both organizational/economic and technical dimensions. The organizational/ economic dimension involves (1) allocative capabilities - deciding what to produce and how to price it; (2) transactional capabilities - deciding whether to make or buy, and whether to do so alone or in a partnership; and (3) administrative capabilities - how to design organizational structures and policies to enable efficient performance. The technical dimension, on the other hand, concerns the ability to learn, to develop and design new products and processes, and to operate facilities effectively. The competitive strength of a particular company is a function of its underlying technical and organizational capabilities while idiosyncrasies in these capabilities trigger and sustain interfirm performance differences (Eisenhardt and Martin, 2000).

Prior research has reported the positive effect of dynamic capability development on small firms' survival and performance. Strategic initiatives which guide learning efforts towards development of new capability sets or rejuvenation of existing capabilities can help small firms quickly improve their performance or adapt to external trends more swiftly and nurture the emergence of internal creativity more effectively despite their lack of experience and/or resource constraints (Branzei and Vertinsky, 2006).

Hence human capital strategies can stimulate the emergence of novel capabilities through expanding external knowledge searches and facilitating the acquisition of innovative ideas from external sources, and through fostering ingenious knowledge cross-pollination within the firm. The initial development of new capabilities depends to a great extent on the quality of human capital, e.g. knowledge, interaction, task-ability, and willingness to learn. Hiring, training, improved coordination and learning-by-doing facilitate capability development (Leventhal and Myatt, 1994). Firms, which attract highly educated and/or highly skilled workers, provide skill-development and cross-training, and offer continued learning-by-doing and on-the-job training, develop 'difficult to trade and imitate, scarce, appropriable and specialized' human capital (Amit and Shoemaker, 1993:36). Attracting and training high quality technical and scientific personnel is considered critical for growth and performance, particularly for firms in dynamic environments (Deeds, et al, 1999).

However, the intensity of the learning efforts in knowledge-intensive, complex or dynamic environments depend not only on the firm's requisite human capital but also on its operational routines. Periodic inflows of qualified personnel and specialized training can improve firms' capabilities by effectively spanning different knowledge bases (Boland et al, 2001). Several studies have associated creative cross-pollination of skills across different areas of expertise with the effective recombination of technological, marketing, and organizational know-how (Helfat and Peteraf, 2003) conditional upon the quality and energy of firms' professional personnel (Deeds et al, 1999).

Hence sustained capability development requires firms to continuously nurture novel operational routines by questioning, reshuffling, realigning, and rejuvenating their core skills. Companies are increasingly organizing their activities less around functions and operations and more around time-designated projects where temporary cross-functional teams are assigned to specific projects with a clearly defined outcomes and completion dates. This type of project-based organization is increasingly viewed as a model achieving innovation, adaptability and rapid learning.

The equivalent of this model in small firms is the assembly of a group of skilled workers who can be used as 'skill containers' and easily employed in different markets (Kristensen, 1995) Firms are not strictly committed to any one business or value proposition, but instead aim strive to keep these skilled employees busy and find more valuable uses for their skills hence expanding the competency base (Cole, 2004) and generating value from extant endowments.

However, although multi-skilling seems to be a necessary condition for the adaptation and growth of smaller companies, there is also a downside. As Avilés et al (2004) have pointed out, working in several fields of competencies may increase the scope and productivity of a firm, but often leads to a lack of training and professionalism in core tasks. This issue needs to be clarified for its vital importance to small firms, particularly

in the context of rapid introduction of new digital technologies and the related questions concerning the development and rejuvenation of skills and capabilities.

Managerial decisions are acknowledged as some of the most critical antecedents of capability transformation (e.g. Adner and Helfat, 2003), influencing the depth of understanding of the external environment, the speed of reaction and the specific actions taken in response. Recent theoretical studies conceptualize managerial decisions and strategic choices as essential stepping stones in the capability-building process (Helfat and Peteraf, 2003, Zahra and George, 2002, Eisenhardt and Martin, 2000). Appropriate strategic choices may help firms overcome the constraints of their existing resource endowments by guiding the further advancement of existing skills and by facilitating development of new capabilities. Managers can shape a firm's competitive posture by specifying the content, sources of desired competencies and their intended effect (Bierly and Chakrabarti, 1996). Yet, the question of whether or how small firms deploy strategic interventions to enhance their existing capabilities and/or develop new ones has remained largely neglected by prior research.

RESEARCH METHOD

The data reported in this paper came from the results of an empirical study which involved telephone interviews with thirty production and post-production companies to investigate the impact and implications of digital technology at a UK Regional level. A qualitative methodology was employed to fully explore the level of understanding and depth of feelings that respondents had about the impact and implications of digital technology. Thirty telephone interviews, of thirty-minute duration, were conducted in the course of one month, with local business decision makers (predominantly owner managers) and individuals working in the film industry. Organisations were chosen randomly and approached for co-operation with the aim of getting access to a spread of audio visual sector companies covering both the production and post-production stages and of carrying out a total of thirty interviews. Following the taped interviews a thematic analysis was carried out.

Research was conducted amongst organisations working within the film and audio visual industry in the counties of Hertfordshire, Cambridgeshire, Essex, Suffolk & Norfolk. The principle business activity of the organisations interviewed was television, film and commercial and corporate video production. A minority of companies were solely engaged in advertising and maintaining an internet library. 25 of the interviews were with individuals in production organisations and five in post-production, although in practice the distinction was nebulous with many working across this boundary. This in itself is in part a function of digital technologies which have allowed the boundaries to become blurred.

The vast majority of organisations interviewed were relatively small, both in terms of the number of employees and their level of turnover. Most companies had fewer than five full time employees, although many of them supplemented this by contracting Freelance staff, as and when the dictates of a project demanded.

The majority of organisations operated from a single office. All relied heavily upon email and mobile phone services, but few had any permanent remote working practices or computer networks in place. Most organisations operated on a turnover of £100,000 or less. There were a few notable exceptions to this, where the research spoke to relatively small film units that were part of much bigger corporations. Consequently these types of organisations, with access to more comprehensive budgets and resources provided an interesting contrast to the remainder of the sample frame.

Approximately half of all organisations surveyed were well-established businesses that had been in operation for ten years or more. The majority had been formed by individuals who had 'learnt their trade' within the industry before setting up their own business. These individuals were typically highly experienced in their field of expertise and had been using analogue equipment prior to the advent and advancement of digital equipment.

A generic topic guide was devised to facilitate discussion around key areas of the respondent's organisational profile, perceptions of the impact of digital technology within the wider film industry, the impact within their own organisation, security, standards and training & recruitment. However, the nature of each individual's experiences, attitudes and general level of engagement with digital technology ensured that respondents themselves firmly shaped the agenda for the discussions. The research was conducted under the Market Research Society Code of Conduct, and consequently no reference will be made to any individuals within this analysis.

FINDINGS

In the section which follows we present the findings from our empirical research. While the interviews ranged over a number of issues of concern to owner managers and decision makers in the small firms we selected, we have chosen here to focus here on those related to the connected issues of training, skills and technological change.

The Managing Director of a Postproduction company in our survey described how:

‘When I was a little boy, I would go and work in a film studios or become a runner and that is how you learnt the industry, you worked your way through each grade...

But he continued:

‘...Now there aren’t the companies that can afford to do that anymore and take on a boy that doesn’t know anything and train them up. The companies need profits and they need someone who can do the job..... there is no going into a company and making cups of tea and things like that...’

Consequently, it is being argued that the traditional ‘Beckerian’ method of developing skills in the industry is not longer sustainable. Small firms were looking for individuals who already possessed the necessary skills to contribute towards the business.

Nevertheless, few of our respondents were found to be actively seeking out and attending training courses of any description in digital technology, preferring to learn about equipment and techniques ‘hands-on’ and on the job. For many of the smaller businesses time away from their work, plus the associated costs of attending courses did not make it a viable option. Consequently, training normally provided by large companies and almost always outsourced by smaller enterprises, is compromised.

There was some concern amongst respondents regarding the media studies courses offered by Further and Higher Education institutions. Whilst most felt that these courses provided a reasonably sound theoretical foundation, there was insufficient practical experience being gained by students. New entrants to the film industry required a considerable amount of hands-on practical training:

‘What happens is Universities and colleges offer what they call ‘Media Studies’ which is not a practical ‘how the industry works’.training in the industry at the moment is very bad.. ...or it is very costly.’

(Managing Director, Postproduction Company)

‘I’m very cynical about media studies I’m afraid and I’m probably not the only one.....I suppose I’m old fashioned..... I went through college at a time when one went to do a degree in a traditional subject and then went on and trained to become a producer or whatever afterwards and I don’t think there was a lot wrong with that..... when academic institutes start running technical training courses it gets out of date so soon.. that I’d question its value’

(Partner, Production Company)

Virtually everyone interviewed during the study expressed concern that the emergence and growth of digital technology, especially DV, was leading to a belief that ‘anyone can make films’.

As two independent producers reported, competition was increasing both as a result of new entrants to the business and clients taking ‘make’ rather than ‘buy’ decisions:

‘...it’s exactly what’s happening in the video industry there is a lot of competition from boys with their cameras in their bedroom sort of thing , and there is also competition in the sense that a company will say ‘I’m not going to buy that, we’re going to do it ourselves’.

(Partner, Production Company)

This respondent’s comment reflects the ambivalent attitude of many of our interviewees to

digital:

‘...it draws more people into the industry because it is more accessible and that is a good thing. Ultimately it will probably put me out of business. If you have an idea now you can go out and realize it....’

(Editor, Postproduction company)

The higher ‘knowledge intensity’ of digital cameras requires less training and seems therefore more easily accessible. However a producer maintained that:

‘...it’s not just a question of pressing buttons that gets overlooked, so it’s quite difficult to quantify that kind of expertise and people are reluctant to pay....’

This suggests that clients believe that the costs the production company has to meet, in terms of outlay on equipment and expertise are falling with the introduction of cheaper and easier to use technology. The client expects this perceived fall in costs to be passed onto him, the customer. Consequently as, for instance, the differences between cameras priced at £60,000 and those at £600 become more subtle, prices for the equipment in use no longer have such explicit quality signalling characteristics, making clients more wary when spending money on services from companies in the industry.

Findings from the interviews also suggest that while digital technology has made it easier to enter the market, it has become far more difficult to remain in it. As technology advances quickly, firms are forced into a potentially costly continuous upgrade spiral:

‘... there is this constant drive to update, constant drive to change Now you buy something and you’re not really sure how long it’s going to last and if you get three years out of it then that’s good going. So it’s difficult, the longer term financial, capital equipment and financial strategy is very different’

(Partner, corporate video production company)

Not only are some of the cost savings through digital technology offset by upgrading costs, as mentioned earlier they also have to be passed on to clients as competition grows more fierce. It is therefore unsurprising that the enthusiasm for digital in smaller companies has waned:

‘...They say that all this technology was actually supposed to make people’s lives easier but in fact it just means that you press their nose that much harder to the grindstone’

(Partner, corporate video production company)

The situation of the audiovisual industry in the Eastern Region appears therefore as a paradox. On the one hand academic commentators and government training agencies warn of skill shortages, while practitioners complain about the opposite: that digital technology requires less skill and therefore reduces market entry barriers so potentially threatening livelihoods.

There does appear to be evidence for this in the case of small firms, as is illustrated by the statement of a young independent television producer:

‘...It depends what we’ve got going on. I could be filming. I could be editing. I could be just putting together the administration for any of those two elements of the process. I could be a sales executive one day. I could be a presenter the other day because I have to, because of where we are. We’re growing. It’s all sort of multi skilled so I wear many different hats...’

(Producer, Independent television production company)

This tendency towards a blurring of the boundaries between formerly distinct sub-sectors was reflected in our firm sample. While the research was oriented towards the production sector in many cases firms worked in both production and post-production.

In summary, while the audio visual workforce is highly qualified many of its skills are acquired on the job. Graduates of media related courses do not rate them particularly highly in terms of the equipping them with the practical skills that they need in employment. Small firms tend to expect their employees to come ready

equipped with skills rather than have to provide them with training but freelancers, in particular, find it difficult to get access to training for a range of reasons. When technologies are changing quickly it becomes even more important that firms have access to appropriate skills, but these skills are not necessarily related to the changing technologies and may include, for example, business awareness related and personal skills.

DISCUSSION AND CONCLUSIONS

The research carried out among the sample of production and post-production companies in the Eastern Region showed that on the whole the adoption of digital technology was viewed as a positive step for businesses. It brought with it improvements in production times, reductions in costs for equipment purchase and hire, greater flexibility in working practices and higher productivity. However, a number of significant threats to the future shape of the local industry emerged. These concerned the linked issues of training, deskilling and product quality. Falling barriers to entry are likely to encourage competition and attract new entrants into a sector that is already made up almost entirely of micro and small business firms.

Our findings are supported by those reported in other academic literature and suggested in the reports of regional support agencies, namely that there is a need for the continuous updating of courses of media related training and education to keep pace with new technological developments. This in itself raises the question of the adequacy of educational funding required to resource high tech audio visual equipment. However, it is also the case that there is a need to ensure that at both initial graduate entry level and later CPD training should include business awareness training as well as technological updating. As the hourglass shape of the sector develops those owning, managing or working for small firms need to be multiskilled rather than simply technical specialists.

Findings from the research also have implications for the services to small firms from regional support agencies. Firstly, small firms need to extend their thinking beyond products and services to business models and strategic innovation. Consistent with previous research (e.g. Smallbone et al, 2000), this study suggests that the dominant role of the owner/manager of a small firm can lead to a narrow strategic perspective. This is particularly apparent where owner/managers lack formal training or qualifications. Strategic deficiencies are of a major disadvantage in rapidly changing environments. A related problem appears to be the narrow focus of many small firms on their customers, making their development dependent on them. Frequently this is reinforced by neglect of systematic search activities concerning new market opportunities.

Small firms are less capable of searching for and using codified knowledge which makes them more reliant on personal ways of transferring this knowledge and on learning-by-doing and interacting. Moreover, it is also more difficult for them to apply formal contracts, relying more on trust-based, informal relations instead. Hence small firms need to be made aware of the importance of networking and how it can contribute to their performance and dynamic adaptation through exchange of tacit knowledge, potential collaborative relationships and the mobility of the workforce.

More importantly, as business environments become more complex and turbulent, and less predictable, companies must build multiple capabilities and achieve excellence across multiple performance dimensions. Capabilities need to be developed not only along technical dimensions but also along organizational dimensions Teece, 1988). Indeed, the latest trends in the field of strategic management suggest that clusters (networks) of small firms working on a project-by-project basis provide the perfect flexible setting for innovating in such business environment.

However, activities directed toward deploying the existing stock of knowledge (exploitation), e.g. purchasing, producing, selling, distributing, finance, typically require high levels of specialization and coordination through rules and routines. This research demonstrates that support for small firms is needed in those organizational, more 'mechanical' areas, in the form of innovation and technology finance, training in planning, financing, and marketing, and development of downstream (distribution) relationships.

Consistent with previous research among the film and media business community (as well as amongst the creative industries more generally), secondary research underpinning our study has revealed that the key need for the creative industries is not creative or technical (apart from ICT) skills but business, management and organisational skills. The gaps identified include marketing, finance and bookkeeping, strategic planning, pricing, general ICT, and self-presentation. These skills gaps are particularly acute amongst the smallest businesses and the self-employed or freelancers. More generally new entrants need work awareness skills

(working in a team, working to commercial deadlines, handling customers, grasping market potential) and an understanding of the importance of networking. Freelancers need career building skills and small businesses need marketing support to encourage learning, development, market-building and collaboration (East of England Cultural Skills and Learning Group 2003, East of England Creative Industries: Advice and Analysis, EEDA, 2002).

There appears to be a general shift in the way skills are being acquired in the audiovisual industry. The readily accessible nature of digital equipment reduces initial learning costs, but the tendency of this equipment to become outdated quickly raises the necessity to constantly adapt the associated skills to changes in technology. Thus learning cycles have become shorter but also more frequent.

While this paper has contributed towards our knowledge of the implications of rapidly changing digital technologies on small firms in the audio visual industries, it begs a number of questions which future research might focus upon. For example:

What strategic and organisational characteristics trigger interfirm performance differences in creative industries?

How should training courses be improved/modified to deliver more value in the context of digitalization?

To what extent are our findings applicable to small firms in other industries, and particularly in sectors where digitalization has induced extensive structural changes, e.g. telecommunications and computer software?

What level of state intervention is needed to support creative clusters and small firms in such industries?

The latter question is complicated by the heterogeneity of small firms in terms of technological level, market relations and competitive strategies among others, which makes it very difficult to target support in a way that matches the specific problems and needs of very different firms.

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**CORPORATE
GOVERNANCE
&
CORPORATE
CULTURE**

CORPORATE GOVERNANCE AND ERM IN A HIGH RISK INDUSTRY

Janek Ratnatunga
Kym Fraser
University of South Australia

Manzurul Alam
Murdoch University

ABSTRACT

Amidst the culture of compliance and 'checklist' approaches to improving corporate governance, much of the accounting research has concentrated on ownership structure and Board composition with financial reporting, audit committees, earnings restatements and disclosure. Such research, although consistent with deductive research using agency theory, is seen as only partial as it fails to address how external requirements can be accommodated through organisational processes. As the governance process is also about accountability and value creation, this paper argues here that the mainstream accounting research has failed to project a balanced view for integrating governance to internal organisational processes. The paper uses an in-depth case study to evaluate the process of organisational governance in terms of different roles played by directors and managers, especially in terms of decision making and resource deployment to achieve organisational objectives.

Keywords: *Corporate governance, Management accounting, Enterprise risk management, Value creation*

INTRODUCTION

The topic 'Corporate Governance' has gained worldwide prominence due to recent corporate collapses, such as, Enron and WorldCom in the United States and HIH Insurance in Australia (Monks and Minow, 2004, Roberts's et.al, 2005, Child and Rodriguez, 2003). As confidence in financial reports diminished among investors and creditors, a sense of urgency was felt among regulators in different countries to restore public confidence and to protect shareholders and investors (Lambert and Sponem 2005, Gordon, 2002). Apart from corporate scandals, there has been a normative pressure for better governance as the business environment became more volatile, less predictable, more globalised and risky. As it was evident that the existing governance framework was inadequate, the usual response was to bring new intended to improve transparency, accountability and integrity (Parker et.al, 2002, Zandstra, 2002, Vinten, 2000, 2005, Doost and Fishman, 2004). Several commentators (Anderson and Chapman, 2002, Seal, 2006) viewed such an approach to corporate governance was limited, as it viewed governance from a narrow perspective and produced a 'checklist' of governance requirements which they felt were unlikely to solve governance problems.

Amidst the culture of compliance and 'checklist' approaches to improving corporate governance, much of the accounting research has concentrated on ownership structure and Board composition with financial reporting, audit committees, earnings restatements and disclosure (Eng and Mak, 2003; Ajinkya, Boraj and Sengupta (2005), Karamanou and Vafeas, 2005; Beekes and Brown, 2006) Such an approach, although consistent with deductive research using agency theory, is seen as only partial (Daily et.al, 2003, Pettigrew and McNulty, 1995, Finkelstein and Mooney, 2003) as it fails to address how external requirements can be accommodated through organisational processes. It will be argued here that the main stream accounting research has failed to project a balanced view for integrating governance to internal organisational processes.

Corporate governance is a process where a Board provides direction, authority, and oversight of management for the benefit of the company's stakeholders, with the ultimate goal being the protection and enhancement of the company's *value*. It is the value creation aspects of corporate governance which is neglected in the literature. In contrast to conformance requirements which is external in its focus, the value added dimension, which has a performance and risk management dimension, requires the Boards to work closely with the management and requires forward vision, strategic thinking and risk taking (Scapens et.al, 2003, Seal, 2001). As the governance

process is about accountability and value creation, it is important to evaluate the process of organisational governance in terms of different roles played by directors and managers, especially in terms of decision making and resource deployment to achieve organisational objectives.

While the Board is the owner of the governance process, day-to-day guidance and oversight by the Board clearly is not feasible. Thus, the Board must rely on other parties – executives, managers, and auditors – to help it fulfill its governance responsibilities. Often these people do not communicate with each other, staying within their silos. In this paper we argue that the management accountant can act as an ‘integrator’ in providing communication and guidance for executives, managers, and auditors who are involved in corporate governance on a day-to-day basis.

LITERATURE REVIEW

While the term corporate governance has been widely used, it has not been clearly defined (Ratnatunga, 2004, Ratnatunga and Ariff, 2005). In general, corporate governance is administered by the Board. Within this framework, each Board is accountable for outlining policies and providing overall guidance, while management is responsible for the implementation of such policies.

The principal weakness of corporate governance is usually pointed towards excessive concentration of power in the hands of top management (especially the Board of Directors) as a result of separation of ownership and management of organisations. To alleviate such problems, accounting researchers, in line with regulatory requirements, have concentrated on designing comprehensive disclosure practices to help organisational oversight activities. It is usually assumed that better reporting practices would unveil major corporate problems. However, the recent corporate scandals and collapses have led to the re-examination of the ‘traditional’ governance issues. Even though the subsequent corporate governance regulations mostly concentrated on auditing and reporting issues (Threadway Commission, 1987, Cadbury Code, 1992, Financial Reporting Council, 2003), the effectiveness of the Board’s role and control mechanisms was also emphasised (COSO, 2003, CIMA, 1999). Such an approach may help to develop a compliance culture but fails to demonstrate how governance procedures are actually achieved in day to day organisational activities. Again, when seen in terms of long term shareholder value creation, the governance processes need to be designed to provide guidance on critical issues and decision situations facing the organisation. An organisation’s governance arrangements are important in that they help determine clear objectives for management and staff to devise a system for managing risk in decision making. There is therefore a growing tendency among the commentators and researchers to expand and clarify the role of the Board in upholding formal structures and processes; and the leadership role of the Board in terms of using an organisation’s competitive advantage to produce better performance (Charan, 1998, Carpenter and Westphal, 2001).

The Theoretical Underpinnings of the Corporate Governance Process

The extant literature suggests that most Boards have failed to take a proactive leadership and define CEO accountabilities (Charan, 2005, 2005a). Even though it is desirable for the Board to be involved with the strategic direction of organisational activities, the actual impact on strategic leadership is doubtful (Westphal and Zajac, 1997). The primary role of Board has been focussed on compliance issues and several reasons are put forward for such behaviour including CEO domination of strategic issues, lack of time and capacity to judge and analyse information, and short termism (Jonk and Schaap, 2004, Finkelstein and Hambrick, 1996, Carpenter and Westphal, 2001). Different competing theories propose different roles of directors in the corporate governance process (see Table 1). It is useful to critically evaluate and adopt a perspective which can accommodate an appropriate guidance for governance of the company.

Corporate governance issues are prominently focussed in *agency* theory which highlights the tension between principal (owner) and agent (manager). Agency theory stresses the need for proper governance mechanisms because of the separation of management and ownership in the corporate structure (Davis et.al, 1997, Jensen and Meckling, 1976). The premises of agency theory are based on the assumption that both agents and owners are self motivated and that there is asymmetric information sharing between agent and principal. Such an arrangement may lead to opportunistic behaviour which can reduce overall corporate performance. In theory, the agency problems can be solved by instituting proper monitoring and incentive mechanisms. It is expected that such mechanisms will align manager’s objectives in line with principal’s interests and prevent agents to pursue opportunistic behaviour. Such a control focus of governance creates a compliance culture (Pound, 1995) and accounting reports play a major role in supporting this approach. It is evident that such an approach usually produces negative consequences where managers pursue sales and short-term profitability growth.

Table 1: Competing Corporate Governance Theories

	Agency Theory	Stewardship Theory	Resource Dependency Theory
Board's role corporate governance	Control and monitoring	Strategic decision making empowering managers	Linking role of Board of directors
Performance evaluation	Short-term measures (profits, EPS share price)	Short and long-term value creation	Short and long-term resource management
Risk attitude	Averse minimisation of risk	Prioritise and adoption of risk Encourage to manage risk	Reduce uncertainty and promote survival
Accounting information	Financial accounting, aggregate ex-post	Management accounting detailed, strategic and operation data ex ante information	Selective financial and management accounting information

In contrast to agency theory, the *resource dependency* theory lays emphasis on reducing uncertainty by securing vital resources for organisational survival (Pfeffer and Salancik, 1978). Under this perspective, the roles played by Boards are seen mainly as 'boundary spanners' to help the organisation adapt to its environment and reduce uncertainty emanating from its environment. Organisations can take advantage of resources under their control and gain key resources to achieve competitive advantage in creating better customer value.

The other major perspective dealing with corporate governance issues is from a *stewardship* perspective. The stewardship theory argues against managerial opportunism and emphasises on trust and need for achievement on the part of managers. As both managers and owners have similar objectives, the Board is expected to take an active part in the strategy formulation process (Donaldson and Davis, 1991). Senior management and Board members work as a team not merely to ensure compliance but also to enhance organisational performance through collaborative efforts. The governance process is seen to promote trust as a means of motivating employees to achieve organisational objectives. It is through such processes that the Board can provide an overall direction of the organisation and monitor managerial performance.

An Integrated Approach to Governance

Although the above theoretical perspectives, when taken individually, focus on only small part of the governance process and provide a one dimensional view (Hung, 1998, Tricker, 2000), they are nevertheless useful as they highlight different aspects of corporate governance. These theories are, however, not without limitations. While agency theory is often criticised of treating managers as opportunistic and self-interested, the stewardship theory is too optimistic about managerial behaviour. However, the key issue remains whether the Board ought to be involved in strategic direction of the company. There are those who argue that the traditional style of governance structure may not be effective for creating long term values (see Child and Rodrigues, 2003), unless the conduct of governance is seen as a two way process between the Board and management for achieving desired performance.

It can therefore be argued that a single paradigm approach may not be useful in explaining complexities faced by modern business organisations (Morgan, 1986; Child and Rodrigues, 2003). A better understanding can be gained by taking a multi-paradigm approach of organisational governance. This paper will argue for an approach to governance with a strategic focus in order to add organisational value. Such a framework is able to integrate both the conformance aspects covering accounting with performance aspects covering value creation in the overall governance process.

While conformance and performance aspects are important for creating values for long term survival of the organisation, the Board also has a responsibility for guiding the organisation to adapt environmental changes (Birkett, 1998). As change is a predominant feature of organisational life, the Board is required to act in collaboration with management to coordinate strategies, resources and processes for bringing changes. In general the corporate framework can therefore, be expressed as a framework to ensure the both conformity and performance improvements to add value to the organisation.

As discussed, most of the literature in corporate governance deals with the conformance aspects. The performance side of governance process requires Board to be involved in strategic decision making process by measuring and monitoring the organisation’s strategic position, options, and risks for creating shareholder values. Desired performance can only be achieved by managing risks and risk management can be seen as part of the governance process, because achieving results would require management of risks to ensure that ‘bad things’ do not occur. Risk management is increasingly perceived to be an essential element of good corporate governance. Accordingly, there appears to be an opportunity for Risk Management and Performance Management to be combined into a single, holistic, process.

The above discussion is summarised in Figure 1. Recent scandals highlight how accounting manipulations, especially financial accounting, were used in earning management to misrepresent company performance. Such activities were performed in collusion between managers and auditors. To alleviate these problems, stringent measures were undertaken by regulating institutions in the form of better regulations and more frequent reporting. This has resulted in an increase in the *short-term conformance* requirements. Such disclosure and audit requirements were regulated so that the investors can trust the *short-term performance measures* of an organisation such as its ROI, net profit, and share price. In addition, the regulatory bodies also required appropriate functioning of Boards in terms of composition and its behaviour. This type of corporate government can be categorized as *long-term conformance* as it is dependent on appropriate institutional responses in the longer-term. However, it will be argued here that sustainable organisational performance can only be achieved strategically in the longer-term. The economic theory that focuses short-termism cannot reveal long term implications. Even though the Board is responsible via the governance process for *long-term performance*, regulatory conformance alone cannot bring this about.

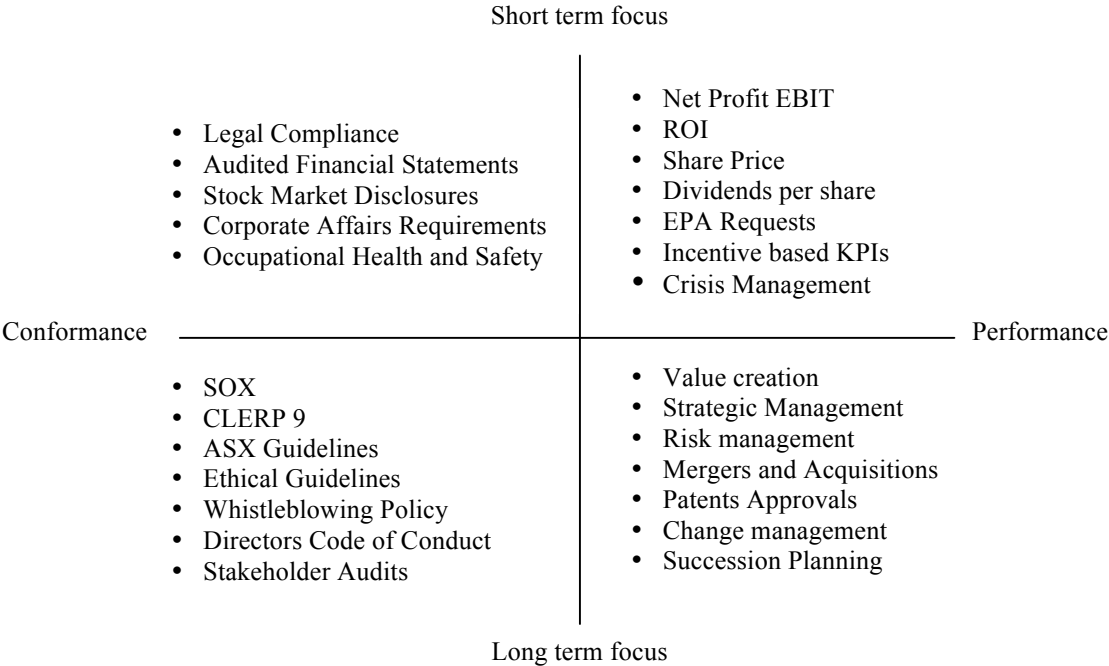


Figure 1: The Focus of Governance in the Conformance vs. Performance Interface

The Board needs to ensure that the organisation is able to respond to changing circumstances and take advantage of relevant market opportunities even as it continues to pursue its planned goals and objectives. Corporate governance needs to contribute to both business prosperity and to accountability. In the current environment it is all too easy to forget the former. Nevertheless, business leaders and shareholders alike must ensure that undue concentration on aspects of accountability does not destroy entrepreneurship and ultimately value.

In summary, the present governance framework is too limited in its approach. While the contextual environment facing the organisation has changed, the existing governance framework seems to be decoupled as it has a legacy of traditional approaches to management. As such, the governance structure may be a hindrance in guiding organisations which requires a dynamic leadership. As it is not clear whether the current governance framework can simultaneously serve strategic performance and conformance aspects, the present study investigates such issues by employing a case study.

RESEARCH METHOD

In methodological terms, the study adopted an exploratory case research approach (Scapens 1990, Van Maanen, 1979, Yin, 1989). Such an approach was justified as the study aimed to understand the role of governance process in an organisational setting. Case methodology facilitates the adoption of a holistic approach to understand different perspectives. Further, this approach was taken to investigate why the limited survey-based empirical research was showing that management accountants were not, in general, involved in governance and ERM processes.

The study was based on a leading pharmaceuticals manufacturing company in Australia (hereinafter Alpha Co.), which was originally listed on the Australian Stock Exchange (ASX) in 1999. The reasons Alpha Co. was found to be a good fit for the specific objectives of the research study was due to four criteria used for site selection:

- (a) *Industry Susceptible to High Risk and High Returns:* We chose the pharmaceuticals industry as the evolving global regulatory climate has become more complex, costly and risk-laden for this industry, with greater disclosure requirements around drug trials, increased transparency in pricing and marketing activities, and compliance with new financial and corporate governance laws. Simultaneously it is an industry where product tampering is rife and the response by the manufacturer to such tampering can either enhance or diminish its reputation.
- (b) *Strong Commitment to Corporate Governance and Enterprise Risk Management:* This commitment is clearly demonstrated on Alpha Co.'s 'Corporate Governance Statement' and 'Risk Management and Audit Committee Charter'.
- (c) *Strong Financial and Share Price Performance:* Over the last 5 years it has been one of the strongest performers on the Australia Stock Exchange with a more than 200% increase in its share price. In the 2006 financial year the company maintained this track-record with an EBIT growth of 18.1% and a PAT growth of 79.3%. Its ROCE increased from 18.5% in 2005 to 22.4% in 2006.
- (d) *A Strong Commitment to Governance Processes by the Company's Leadership:* The current CEO and managing director of Alpha Co. has a background in management accounting, and has publicly stated on numerous occasions in the business press that the company had instituted a governance process based on accounting information, especially cost control. This accounting focus was of paramount importance to test the application of theory in practice, and to investigate divergences, if any.

The CEO was approached, and the reasons why the company was chosen for an in-depth case study was explained, after which the CEO allowed the researchers access to divisional managers and to different levels of information. Given the open access granted under the CEO's authority, the researchers found that they were freely able to undertake their investigation into the firm's governance and ERM processes.

The research was conducted through a series of semi-structured interviews with key informants. Face to face interviews included the CEO/managing director, the company secretary, the chief legal officer, the CFO, the corporate management accountant, the human resources manager, and other accountants. In addition to these formal interviews, other informal discussion was carried out with selective managers and employees representing different segments of the company. Most of these interviews lasted one hour to ninety minutes.

- (a) The researchers specifically focused on the organisational requirements of resources needed to support the multi-dimensional framework of corporate governance and the processes in place to evaluate if these resources are utilised to maximise profit, growth and value. This was because it is here that the role of accounting information in governance and ERM is more likely to be apparent. Ideally, the Board needs to focus on monitoring and strategic roles and such functions need accurate and timely information.

The interviews were documented and confidentiality was given to all interviewees. In order to cross validate information generated through interviews, other information (such as annual reports, governance statements, constitution, management reports, etc.) was also obtained and analysed.

CASE STUDY: ALPHA CO.

Currently there are approximately 1200 shareholders. However, a significant amount of shares are concentrated amongst a few individuals, one representing a 17.5% holding. As such, the company was considered to have a high shareholder concentration, thus necessitating a significant transparency in governance procedures (as discussed in Ratnatunga and Ariff, 2005).

The Role of the Board in Governance and ERM at Alpha Co.

The company has a very small Board. All of the Board members are also in the risk and audit committee. From the interviews and the study of the published documents it was clear that the Board of Alpha Co. governs on behalf and for the benefit of the company's stakeholders. These include its shareholders, employees, customers, suppliers, and others. There is an induction program for all new Directors. It enables Directors to meet with relevant senior managers and inspect Alpha Co.'s operations to enable them to fully and actively participate in Board decision making at the earliest possible time. Directors are encouraged to continue their professional development. The company has issued a policy document that its Directors will be kept up to date on relevant legislative and industry issues which affect Alpha Co.. Directors also have, as a matter of policy, full access to all senior executives and information as requested. Although clearly the Board "owns" the corporate governance process at Alpha Co., the execution of policies made by the board was seen as management's responsibility. The Board, however, assumed ultimate responsibility for the corporate governance process. Senior management, on the other hand, was seen to "own" the governance execution process, and a Non-Executive Director chairs the Audit, Remuneration and Risk Management Committee. Overall, the corporate governance process was seen to be effective because:

- (a) the chief executive officer was committed to the process,
- (b) members of the Board were also members of the *Risk Management Committee*,
- (c) other officers such as the chief financial officer and the company secretary (chief legal officer) also manage the risks under their jurisdiction, and
- (d) business unit executives and managers assume everyday responsibility for managing the risks under their control.

It was evident therefore, that Alpha Co. had systems in place that went beyond the agency view of the Board's role corporate governance. Clearly, processes were in place that empowering managers in strategic decision making (stewardship).

Overview of Corporate Governance, Risk and Cost Management at Alpha Co.

The company had a 'Corporate Governance Statement' which states that Alpha Co. has established a comprehensive framework to identify, assess, monitor and manage risk across Alpha Co.'s operations. Such a governance system is supported by conducting an external and internal audit of finances and controls, with periodic meetings between the Board and the external auditor (including some meeting where the management is excused). There is also monthly reporting to the Board on group activities; a wide range of Alpha Co. policies and procedures and specific risk management activities in each business area. Further, the company has prepared a Delegation Manual; a comprehensive insurance program and a specialised TGA compliance program including standard operating procedures.

On the close examination of Alpha Co.'s policy and procedures, the researchers found it to be very heavily oriented towards compliance issues; both in the short and long-run (see Figure 1). It appeared that the primary objective of the Risk Management and Audit Committee was to ensure that the company does not damage its reputation by not complying (or inaccurately complying) with any matter related to its external regulation. As this was not what the researcher considered to be the main focus of ERM, further investigation was necessary as to long-term performance perspectives.

The section on Corporate Governance in the company's 'Risk Management and Audit Committee Charter' has a very brief 'motherhood' statement that the role of the committee is to review and make recommendations

regarding the company's corporate governance policies, practices and procedures and make recommendations regarding the Corporate Governance Statement in the company's annual report and in any other statutory report or document. The section on Risk Management itself in this document has an equally very brief 'motherhood' statement that the committee's role is to review the adequacy and effectiveness of Alpha Co.'s Risk Management policies, procedures and systems and overview the implementation and maintenance of a risk management program throughout the Alpha Co. group so that:

- (a) the wider goals, objectives and strategies of Alpha Co. are complemented;
- (b) all significant risks are identified, evaluated, treated, monitored, managed and communicated at a group, divisional and business unit level; and
- (c) the adequacy and effectiveness of Alpha Co.'s Crisis Management plans for all key businesses within the Alpha Co. Group are reviewed.

As the researchers were looking for a long term performance link in the company's ERM strategies (see Figure 1), the investigation had to find out the actual practices behind these 'motherhood' statements found in the 'Risk Management and Audit Committee Charter'. Therefore, the interview questions specifically focused on this area.

In response to the very general "Why do it?" question in relation to governance, there was an admission from the CEO that 30% of such activity undertaken by Alpha Co. is often done to be "seen" to be doing the correct thing. This is mainly what is done to fulfil mandatory or voluntary regulation (see Figure 1 issues related to conformance). The CEO stated:

We are subject to pressures such as the recommendation of CLERP 9. Also there are significant pressures in maintaining our TGA licence. If we lose that, we will have to shut down tomorrow. However, we recognise that there are governance aspects that cannot be legislated. Remember that governance is not about disclosing everything. If we disclose every crank or threatening letters we get, then it will panic shareholders unnecessarily. This is not good for the company or its customers and shareholders. Such "extortion" letters are duly handed to the police, who advise us of the appropriate action.

However, he believed that 70% of what is undertaken as 'governance' at Alpha Co. is not subject to any regulatory requirements, and done because the company believes such actions 'add-value.' He believed that most often these value-additions arise in the area of how the company manages risks. The CEO stated that, "This means we have to identify our risks, assess them, insure against downside risk when possible, but also have a 'war chest' to take advantage of upside-risks when they arise. As our profit grows, our capacity to take risks also grows." Company Secretary and General Counsel had a different take on this question:

My first responsibility is to keep Alpha Co. "legal" in terms of corporate and commercial law. There are also the TGA and EPA requirements which are mandatory. In addition, Alpha Co. is controlled by ASX requirements as a listed company. Although the ASX 10-point corporate governance guidelines are voluntary, as a listed company we follow them anyway. There is a certain amount of peer pressure to do so, but even if there wasn't, we probably will adhere as far as possible to them. These give guidelines as to the structure of our Board, disclosure requirements, etc. Unfortunately the capitalist system of profit maximisation produces "externalities". But the law there is "fuzzy". Often the TGA and EPA are seen as "regulating the same damn thing". This may not necessarily cover all stakeholder expectations.

It was clear from the discussions that the company had a number of risk drivers, the main risk drivers are the Therapeutic Goods Administration (TGA), Environmental Protection Agency (EPA), Unions, Consumer Association (e.g. animal rights), Ethical Investment Funds and Equal Opportunity (e.g. gender balance). The CEO said, however, that other pressures often exerted on the company from its numerous stakeholders, some of which they actively resisted. "For example, we don't, as a policy, contribute directly to charitable organisations. We prefer to give that money to our shareholders to give to the organisations of their choice. Charity is a personal matter, and the Board cannot second-guess the desires of its diverse shareholders as to "worthy" charities for donations."

The issues of 'cost-benefit' permeated thought the organisation, from risk management to drug testing to packaging. The CEO had built his reputation, and that of the company on the platform of sound cost management. The CEO States:

There is always a cost-benefit trade off. If we were to achieve 100% product quality and reliability in our industry then we will need to test 100% of our products. As our 'testing' must be destructive [to test if the chemical composition in the drugs are as per specifications] then we will have no product to sell after a 100% testing. Therefore, 'cost efficiency' must be a factor. But we are conscious that this should not be at the expense of our reputation. So the costs expended to safeguard our reputation must be considered in the light of the long-term benefits. The other driver is, of course, value. Not just cost value, but street value. We have a chemical that has a cost value to us of \$25,000 but a street value of \$3m. The safeguarding of this often costs us more than the product itself.

Another good example of cost-benefit that was demonstrated to the researchers was in the area of packaging. Alpha Co. has not only purchased equipment that is "energy efficient" but also the equipment is able to package in flexible sizes. As explained by a senior manager in the production area, "We found that one of our drugs was packed in a 200 capsule bottle. But upon opening the bottle, the capsules could deteriorate due to the contact with the environment. So we devised a "pack" of five small bottles, each containing 40 capsules. The additional cost of the packaging was negated by the benefit of the longevity of the product. But we need the machinery to handle such flexible manufacturing techniques. We are constantly considering such cost-benefit trade-offs." The CFO had this to say regarding the company's cost-benefit philosophy:

Cost management and cost-benefit issues are always paramount in our organisation. For example we have closed inefficient plants and relocated manufacturing to more efficient plants after undertaking a risk evaluation that TGA compliance issues may arise if production continues. Products are also discontinued regularly for TGA compliance related cost escalations. It would just not be economical to expend the CAPEX to get such products to be TGA compliant. Of course one may ask why the additional costs of TGA compliance are not passed on to customers in terms of higher prices? This is not always possible. Most of what we manufacture is on the PBS. It is a long process to get PBS approval of price increases. It is possible, but not easy."

It was evident therefore, that Alpha Co. had a risk attitude that went beyond the agency view of risk averseness and minimisation of risk (see Table 1). It was evident from the interviews that risks are prioritised and the management of risk across all levels is encouraged (stewardship) so that uncertainty is reduced and survival promoted (resource dependency). Further, whilst the 'public face' of its risk management activities was geared towards the 'conformance' issues (see Figure 1), the company's Board and senior management were mostly involved in 'performance' issues, both in terms of short and long term impacts. Many of these 'performance' criteria (and the rewarding of such) had also been incorporated into its policy documents.

Performance Evaluation at Alpha Co.

As discussed above, the company had a 'Corporate Governance Statement' on its website with 10 sections. Of particular interest here is Section 8 of the document headed 'Encourage Enhanced Performance'. Here it states publicly that the performance of the Board, individual directors (including the Chairman) and Board committees is evaluated on a regular basis by the company. On an annual basis the Managing Director's performance is evaluated by the Board against set criteria.

The performance of key executives is managed through the establishment of objectives for each executive's key accountabilities. These are reviewed on a regular basis. These objectives are designed to achieve Alpha Co.'s short and longer term business plans.

Post implementation, the Board at Alpha Co. evaluates the CEO's and senior executives' performance (including ERM performance) to ensure that their performance targets and compensation was aligned with the company's strategy and linked to shareholder value. It also evaluated senior management's succession planning process to ensure that appropriately qualified people are ready to step in and carry on corporate executive duties when members of the senior management team turn over. Some of the thinking behind the KPIs chosen for performance evaluation was elaborated by the CEO:

"All our KPIs are quantitative. But these days they are also integrated. Earlier bonuses were paid, especially on the production floor, on a single KPI indicator, e.g. "Lost Time due to Injuries." This can be

reduced by simply running under-capacity. Thus production volumes get affected. We saw these measures as “contradictory” and not helping to achieve overall company objectives. Therefore today we have an integrated KPI system, and we will provide you with an example (See Table 5). These KPIs are weighted to provide an overall ‘integrated’ score. These KPIs also cascade downwards”.

The performance evaluation process is called “SAS” (Alpha Co. Appraisal System), and is as follows. The Board sets the CEO’s KPIs such as the expected profit levels, safety record, expansion plans etc. The CEO then sets the general manager’s KPIs. For example, the KPIs for the GM-Human Resources are □ profit related and □ human effort related. The GMs then sets the next level of managers’ KPIs. The GM-Human Resources then sets the KPIs for those managers in her section, such as the National Organisational Health Manager’s (or safety guru’s) KPI. At each level the KPIs get tougher as non-achievement affects the higher level management KPIs. The KPIs do not cascade down to the ‘shop floor’ because of union activity. SAS is only for the executives and some sales employees whose commissions and bonuses are based on their KPIs.

The researchers were concerned that SAS was not going to motivate the lower-level employees, in terms of implementation of governance procedures, ERM and overall value-creation. However, the company had other motivational approaches that reached all levels of the organisation. The GM-Human Resources had this to say on the subject:

Whilst only the executive’s rewards are based on the achievement of agreed KPIs – all employees can participate in the “Employee Share Scheme.” They can obtain an interest free loan from the company to purchase up to 4,000 shares per year (equiv. at present to about \$10,000 p.a.). The loan is repaid by the dividends earned on the shares. So there is no ‘downside’ risk. Employees can sell the shares (and repay the loan and make a profit); repay the loan and keep the shares or simply forget about it when they leave the company. About 50% of our employees are subject to EBAs (Enterprise Bargaining Agreements) and the remaining 50% are on contracts of employment.

Further, it was clear that whilst the KPIs used for rewards and incentives were biased towards short term performance (see Figure 1), the company was endeavouring to provide incentive across the Board for longer term performance results. It was evident therefore, that Alpha Co. had systems in place that went beyond the agency view of Performance evaluation (see Table 1). Clearly, processes were in place that incorporated rewards for short and long-term value creation (stewardship) and short and long-term resource management (resource dependency).

Communication and Integration of the Governance and ERM Processes

The conventional wisdom of the literature suggests that there must be effective communication channels linking the ‘risk owners’. This is seen as critical to successful ERM and governance. At Alpha Co., the CFO’s area (incorporating both financial and management accounting functions) played an active role in facilitating effective two-way communication between: (1) the Board and senior management, (2) senior management and risk owners, (3) management and auditors, (4) internal and external auditors, and (5) auditors and the Board. Whilst much of the information provided was quantitative accounting information, the management accounting section also were involved in many qualitative assessments. The CFO states:

The financial issues that the Board is concerned with are, business integration issues, OHS, CAPEX - all CAPEX over \$250,000 must be Board approved- business development proposals of Brand and company acquisitions, issues of shares, exercise of options, board performance reviews and changes in management reporting. In the past they have been very sensitive about such things as injuries at work place and TGA compliance. All correspondence with TGA must be shown to Board, as well as management’s actions regarding these TGA compliance issues. Other finance related issues of great concern to the Board are EPS growth, ROI and Cash Flow Forecasts.

The company, however, does *not* have in place formal processes to gather information about the expectations of its wider group of stakeholders, hence the reason for the ‘qualified-yes’ given in terms of external reporting to Alpha Co.. When enquiring why such a process was not undertaken, the Company Secretary and General Counsel said, “With regards our wider stakeholders, our corporate governance and risk management teams are well aware of those expectations, having significant experience in the industry. Also, there are ‘risks’ associated with asking stakeholders for their expectations. They will want these delivered! And that can cost money”. On this issue, the CFO stated that, “We have a very balanced Board: - including a scientist, a pharmacist, a banker, a

financial expert, a businessman, - so it has a good understanding of stakeholder expectations. A small board but very balanced and very effective.”

In terms of internal communication, however, the answer is very much in the affirmative, as the company has recognised that many of the ERM and governance framework responsibilities, overlap, and that one process affects the other. This has resulted in common memberships in the Board and Risk Management Committee. However, true integration is only possible via effective co-ordination and communication to all employees, and here Alpha Co.’s approach is less conventional. For example the CEO simply said that, “We tell employees to behave in such a way that if their actions are reported in The Age (newspaper) tomorrow, they will not be ashamed of their actions”. Others interviewed also commented on the informality of information flows. For example, the Company Secretary and General Counsel had this to say:

Most of the communications flows are informal. As most Board members are also in the Risk and Audit Committee, there is a good communication flow between these two committees. There is little written formal reporting, however, except in the area of reporting on KPIs. The organisation is a fairly “flat structure” with the CEO and four senior managers in the executive team. There are no “layers and layers” of middle management. As the CEO has been with the company a long-time, fulfilling many roles as he progressed to his current position, he knows almost everyone by first name. Also his mobile number is available to all employees. So he is very accessible. In terms of formal communication, we have a ‘whistle-blower’ policy in place. It has never been used, however.

A similar comment was made by the GM-Human Resources:

We have also a unique informal governance approach at ALPHA CO. in that every employee is given the CEO’s personal mobile number, and therefore feels that they have access to the top. The CEO himself walks around the shop floor and knows most people, from the payroll clerk to the cleaners. This has had a very positive impact on governance and transparency at Alpha co.

It appeared from our interviews with the directors, senior management, risk owners, internal auditors, and external auditors that they all considered that ERM and governance processes to have evolved continuously. Everyone interviewed stressed the importance of their specific ERM and governance responsibilities and roles as they seek to more closely align their company’s governance with its ERM processes (Table 2).

At Alpha Co., due to the longevity of the CEO in the company, much of this appeared to revolve around his intimate knowledge of the company. Whilst this abodes well for the benefits of choosing CEOs from within the ranks of the company; we were concerned that this itself was a risk to the company in the long term. We were assured that succession planning is very much a key aspect of the company’s Corporate Governance Statement.

Other specific information that is communicated upward to the Risk Management and Audit committee and the Board includes: Written assertions regarding compliance with the company's code of conduct, Risk and control assessments, Risk management plans, and ERM performance reports. With regards to communications between management and external professionals, a clear understanding is obtained in writing, regarding specific assurance services to be provided. This not only applies to the ERM consultants but also to the external auditors. The external auditors are also required by their professional standards to specify their contractual obligations to clients in engagement letters. The same applies at Alpha Co. regarding its ERM consultants. The CFO (using both his financial and management accountants) acts as the facilitator of this two way communication process to ensure that management provides adequate information to the auditors and ERM consultants for them to complete their work.

External auditors communicate to management any deficiencies in internal control over financial reporting uncovered during the course of their work. They communicate their findings to the Board and external parties using financial accounting standards and assurance techniques. Whenever external auditors uncover evidence that fraud may exist, they are required by their professional standards to bring the matter to the attention of the Board and ultimately to the shareholders, and this has happened in one instance at Alpha Co..

Table 2: Who is Responsible for What at Alpha Co.

	PERFORMANCE MANAGEMENT RESPONSIBILITIES?	PRIMARY ROLES IN CORPORATE GOVERNANCE
<i>Board of Directors</i>	Yes (Delegated to performance Management Committee)	Provides performance management direction, authority, and oversight to senior management.
<i>Performance Management Committee</i>	Yes (Comprised of Non-Executive Directors)	Has primary responsibility for performance management. Delegates management authority, and specifies risk tolerance thresholds to managers . Reports performance plans and performance results to the Board of directors.
<i>Senior Management</i>	Yes	Assigns specific management authority and risk tolerance thresholds other personnel. Report performance results to risk management committee.
<i>Consultants, Internal and External Auditors</i>	Yes (the External Auditors)	Provide independent, objective assurance to senior management and the Board of directors about the effectiveness of management, control, and governance processes.

Whenever internal auditors uncover evidence that fraud may exist, they are required to bring the matter to the attention of an appropriate level of management, often the CFO. However, at Alpha Co., the internal auditors' assurance reports are no longer limited to ensuring adequate financial controls within the transaction recording processes. These assurance reports now include applicable conclusions and recommendations on strategic and ERM issues, and often include strategic action plans that require management agreement. Often conflict arises in this area as the conclusions, recommendations, and action plans are based on the auditors' evaluation of risk management performance, and could be very different from management's perceptions. The CFO therefore needs to be an individual who not only has the authority, but also the technical ability to resolve such conflict, especially in the area of strategic recommendations. At Alpha Co., it appears that the senior management interviewed considered that such matters also be handled by its Risk Management and Audit Committee. The CFO and the Chairman of this committee work very closely on such issues. It was evident therefore, that at Alpha Co., communication and the provision of accounting information went beyond the agency view of aggregate ex-post financial accounting (see Table 1). Ex ante management accounting information, both quantitative and qualitative was provided to all levels of the organisation in detailed to assist with strategic and operational issues (stewardship) and selective financial and management accounting information was used specifically in the ERM area (resource dependency).

DISCUSSION AND CONCLUSION

As the contextual environment changes, the governance process needs to focus on areas where changes or transitions are needed. It requires appraisal of organisational position at regular intervals and undertake strategies to prepare the organisation for change. The system of governance and ERM can be facilitated by timely and accurate information to produce better performance for the organisation.

This study has demonstrated the emergence of such a role. The key findings are:

1) Corporate Governance Reporting systems

It is clear from the discussion of the case, that the top management at Alpha Co. sees corporate governance from a value creation perspective, and have put in place processes to ensure that the organisations achieves the results as planned. The governance processes at Alpha Co. enhances values by creating an environment that has motivated employees to consider the cost-benefit of further operational efficiency and long term productivity. The generalisation we can draw from this is that corporate governance and ERM should be seen as dynamic and integrated processes which helps achieve performance by linking the organisation to its environment.

The company had a 'Corporate Governance Statement' on its website, with ten sub-sections. On studying the document, each section could be seen to cover a particular quadrant of the *Conformance vs. Performance Interface* (Figure 1) as follows:

- (a) Lay Solid Foundations for Management and Oversight (*Long term-Performance*)
- (b) Structure the Board to Add Value (*Long term-Conformance*)
- (c) Promote Ethical and Responsible Decision Making (*Long term-Conformance*)
- (d) Safeguard Integrity in Financial Reporting (*Short term-Performance*)
- (e) Make Timely and Balanced Disclosure (*Short term-Conformance*)
- (f) Respect the Rights of Shareholders (*Short term-Conformance*)
- (g) Recognise and Manage Risk (*Long term-Performance*)
- (h) Encourage Enhanced Performance (*Long term-Performance*)
- (i) Remunerate Fairly and Responsibly (*Short term-Performance*)
- (j) Recognise the Legitimate Interests Of Stakeholders (Both Long term-Conformance and Long term-Performance)

2) *Corporate Governance and Organisational Performance*

Much of the literature indicates that although the Board clearly "owns" the corporate governance process, it is not directly responsible for ERM, which is seen as management's responsibility. This was the culture prevalent at Alpha Co., which even empowered its shop-floor employees to consider it their responsibility. The generalisation we can draw from this is that, the Boards of organisations should go beyond the minimum compliance requirements of the governance legislation affecting them, and assume ultimate responsibility for corporate governance within which ERM falls. This is particularly relevant to motivate the senior management; with regards to the *performance* aspects of the company (see Figure 1). However, senior management (who "own" the ERM process) should be responsible for designing and implementing a structured and disciplined approach to managing risks. Under senior management's supervision, risk owners develop, implement, perform, and monitor risk management capabilities and activities.

Alpha Co. has a set of policies and a process for the identification and dissemination of information, so that the management team and the Board can be assured that they have the correct information and that they can communicate their trust in the information that they are providing to all stakeholders. Much of this information is a two-way flow in the organisation and all employees are empowered to act on this information with regards to governance and ERM matters. Such policies include formal processes such as the 'whistleblower policy', to informal information flows in which any employee can directly phone the CEO on such matters. The Board also evaluates senior executives' performance and ensures that their performance targets and compensation are aligned with the company's strategy and linked to shareholder value. The company also has an incentive scheme right across the organisation to its lowest employee levels. The generalisation we can draw from this is that successful strategy implementation can be achieved by the communication of knowledge and information across the organisation, empowering employees to act on this information and by linking the rewards system to such actions. This is in keeping with the theory in this area regards to open-book management (Barton, et.al, 1998) and empowerment accounting (Ratnatunga, 2004).

The Board sees its role as guiding management in major strategies and monitoring these from time to time. The Board contributes in the strategic decisions and has reduced the level of monitoring only after setting appropriate procedures, such as the formal reporting and internal control system. In addition to the above conformance issues, performance issues such as how policies are translated into financial targets and how resources are sourced and used (including capital expenditure decisions and risk strategies) are also be seen as a function of corporate governance at Alpha Co., as risk strategies need to be translated into operational practices.

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DOES CEO DUALITY AND BOARD HETEROGENEITY AFFECT FIRM PERFORMANCE? EVIDENCE FROM ISTANBUL STOCK EXCHANGE (ISE) SERVICES INDEX

Serhat HARMAN
Ebru KANYILMAZ POLAT
Canakkale Onsekiz Mart University, Turkey

ABSTRACT

Boards are playing critical role in publicly listed firms. From this starting point, in this study, how CEO duality and board heterogeneity of the firms which are operated in ISE services index are related firm performance in terms of ROA and Tobin Q ratio between years 2005 and 2007. Findings indicate that in 78 percent of firms operated in ISE services index chairman works both as CEO and Chair man. Also, average board size is 6,88. According to Hierarchical regression analysis, only functional heterogeneity positively related both in terms of ROA and Tobin Q ratio. Another major finding is CEO duality has no impact on firm performance in terms of ROA.

INTRODUCTION

Board of directors plays important role in the corporate governance of publicly listed companies, and therefore understanding the determinants of board structure is an important research in the management area. Recently, theoretical and empirical works (Zimmerman 2008; Elsayad 2007; Raheja, 2005; Dalton et al., 1998; Harris and Raviv, 2006; Adams and Ferreira, 2007; Lehn et al., 2003; Boone et al., 2007; Linck et al., 2007, 2008; Coles et al., 2008; Baliga, Moyer, and Rao, 1996; Beatty and Zajac, 1994; Boyd, 1995; Buchholtz and Ribbins, 1994; Daily and Dalton, 1994, 1995; Davis and Donaldson, 1997; Finkelstein and D'Aveni, 1994;) show there is high level of attention has given to the topic. Also in the management research, basic premise is that top management plays a dominant role in formulating corporate strategy. Gioia and Chittipeddi (1991), define CEO as someone who has primary responsibility for setting strategic directions and plans for the organization, as well as responsibility for guiding actions that will realize those plans.

In general of the impact of separation of ownership and control, CEO duality has come under particular scrutiny (Lorsch and MacIver, 1989; Murray 1989; Brickley, Coles, and Jarrell, 1994). CEO duality refers, the CEO of the firm wears two hats-a CEO hat and a chairperson of the board of directors hat. Non-duality implies that different individuals serve as the CEO and the chairperson (Baliga, Moyer and Bao 1996).

With the term "Board Heterogeneity" it was addressed top management heterogeneity of the firm and it is typically measured in terms of observable characteristics such as functional background, education, age and gender, which serve as factors for psychological attributes that influence firm performance (Hambrick and Mason, 1984). Current literature offers support for the claim that the breadth of perspective, experience, knowledge, insight, etc., provided by a heterogeneous board is positively related to firm performance (Hambrick and Mason, 1984; Kilduff et al., 2000).

Most of the studies about CEO duality and board heterogeneity studies have been conducted in the US. and Western Europe settings (Adams and Ferrara 2007; Guest 2008). So there is a need for understanding of how CEO duality and board heterogeneity affect firm performance differ in countries with different legal, institutional and regulatory systems of developing countries. In the Turkish context, corporate governance has been seen as an increasingly important topic. Especially, Turkish Industrialist's and Businessmen's Association (TUSIAD) play central role in promoting of corporate governance in Turkey. TUSIAD pursues its activities in corporate governance via its Working Group established in 2000 (www.tusiad.org).

In this study, effects of CEO duality and board heterogeneity on firms performance was examining with sample of 34 firms which are traded ISE Services Index between periods of 2005-2007. Data was obtained from annual

reports and corporate governance reports of these firms. Rest of the paper follows as, theoretical background and hypothesizes of study. Sample design and measurement variables findings, and discussions and managerial implications presented.

THEORY and HYPOTHESES

Agency Theory

Separation of ownership and management in modern corporations has led to different arguments explaining the relationship between the principal and the agent. According to agency theory, the agent, in this relationship, will be a self-interest optimizer. In other words, executive managers will take decisions with the aim of optimizing their wealth and/or minimizing their risk at the expense of the shareholders' value. Therefore, it has been argued that internal and external monitoring mechanisms need to be implemented to lessen divergence in interests between shareholders and the management (Jensen and Meckling, 1976; Fama and Jensen, 1983).

Some other researchers argue against the hypothesis of agency theory and propose stewardship theory. For example, Donaldson and Davis (1991) claim that, "The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets" (p. 51). The explicit premise of stewardship theory is that the structure of the firm is the main determinant that can assist (or otherwise) the executive manager to implement his or her plans and objectives effectively (Elsayed 2007).

Agency theory can be applied to board structure and CEO duality. As with board composition, there is strong sentiment among board reform advocates, most notably public pension funds and shareholder activist groups and capital market organizations of countries that the CEO should not serve simultaneously as chairperson of the board. And also we can say many in the scholars have pointed out this state.

Empirical evidence from management field research is inconclusive. While some studies (For example. Donaldson and Davis, 1991; Lin, 2005) support the positive impact of CEO duality on corporate performance, others For example (Kula 2005; Rechner and Dalton, 1991; Pi and Timme, 1993) find that duality leads to inferior shareholder value. Yet other studies (e.g. Berg and Smith, 1978; Chaganti *et al.*, 1985; Rechner and Dalton, 1989) find that there is no correlation between CEO duality and firm performance..

Some other authors use contingency t to explain the relationship between CEO duality and firm performance. For instance, Boyd (1995) clarifies that "We propose that both theoretical perspectives are correct – under different circumstances. Thus, duality may be negatively associated with performance in some situations, but be positively related in others" In a similar, Brickley *et al.* (1997) illustrate that the optimal leadership structure of board varies across firms. We can say independence of the CEO and the chairman of board have an impact on corporate performance, but the direction of impact varies from context to context.

In the Turkish context, TUSIAD and SPK (CAPITAL MARKETS BOARD OF TURKEY) recommends to firms which are publicly listed to separate their chairperson and CEO, but some firms separate, some not. And also, there is no empirical evidence in the Turkish context about CEO duality. So we will test the following null hypothesis:

H1: CEO duality has no impact on corporate performance

Upper Echelons Perspective

Importance of the top management noted first by Cyert and March (1963) in their work on the dominant coalition. Hambrick and Mason (1984) presented their upper echelons perspective, a behavioral approach that treats the top management as a significant influence on the direction and performance of the business. In the upper echelons perspective, the attitudes, skills, values, and cognitive structures of the top management are often cited as influencing the strategic choices of the top management (Hambrick and Mason, 1984). A myriad of studies have since examined the characteristics of the top management and their relationship to strategic decision making and firm performance For example (Zimmerman, 2008; Bantel and Jackson, 1989; Hambrick, 1994; Hambrick *et al.*, 1996; Wiersema and Bantel, 1992).

Relationship between functional background experiences and strategic decisions examined firstly by Dearborn and Simon (1958). They argued that corporate elites' experiences bias their attention and proposed solutions to complex business situations, and showed that executives in an experimental setting gravitated towards interpretations of a complex business situation that reflected their own functional backgrounds (Zimmerman 2008). Finkelstein and Hambrick (1996: 93) point out that a correspondence between functional experiences,

preferences and dispositions, and strategic choices may occur through self-selection and socialization: individuals may choose functional areas that fit their cognitive models and values, but also over time become socialized and inculcated with the area's dominant mode of thinking and acting (Jensen and Zajac, 2004).

There some measures of top management heterogeneity have been usually to explore heterogeneity (functional background, educational background, age, and tenure). These measures have been studied extensively but rarely have all four been studied together (Bantel, 1993; Murray, 1989; Pegels and Song, 2000). Published research offers support for the claim that a heterogeneous directors board makes better strategic decisions and is positively related to a variety of desirable outcomes, at least in established firms, including firm performance (Zimmerman 2008).

The functional background of the directors has been identified as an important characteristic of the top management (Zimmerman 2008; Brouthers, Brouthers, and Werner, 2000; Hitt and Tyler, 1991). Although top managers are thought to have a generalist's perspective (Hambrick and Mason, 1984), it is often the case that these individuals have a functional specialization (Gupta, 1984). Hambrick and Mason argued that top managers have an orientation that develops from functional experience; Functional background was found to influence the strategic choices of firm founders in that they emphasize the function with which they have experience (Boeker, 1988). Brouthers et al. found that managers with functional experience in management pursued more aggressive strategies compared to managers with functional experience in finance and accounting (Zimmerman 2008).

Positive relations between functional background heterogeneity h environmental scanning alternatives, effective decision making, competitive action and response, strategic clarity, innovation, and creativity have been found in established firms (Hambrick and Mason, 1984; Hambrick et al., 1996; Murray, 1989)

H2: Heterogeneity in the functional background is positively related to firm performance

Education can be defined as an individual's knowledge and skills and to be related to the team's information-processing capacity. When top managements educational level is high there can be high level of innovative outcomes. Hambrick and Mason emphasized that the type of education earned by the top managers will influence their strategic decisions. Heterogeneity in the educational background of the management board suggests variety in their perspective. Positive relationship between educational background and competitive action, competitive response, strategic change, to strategic clarity, and firm performance was found in established firms (Hambrick et al., 1996 Wiersema and Bantel, 1992 Hambrick et al., 1996 Bantel, 1993).

H3: Heterogeneity in the educational background is positively related to firm performance

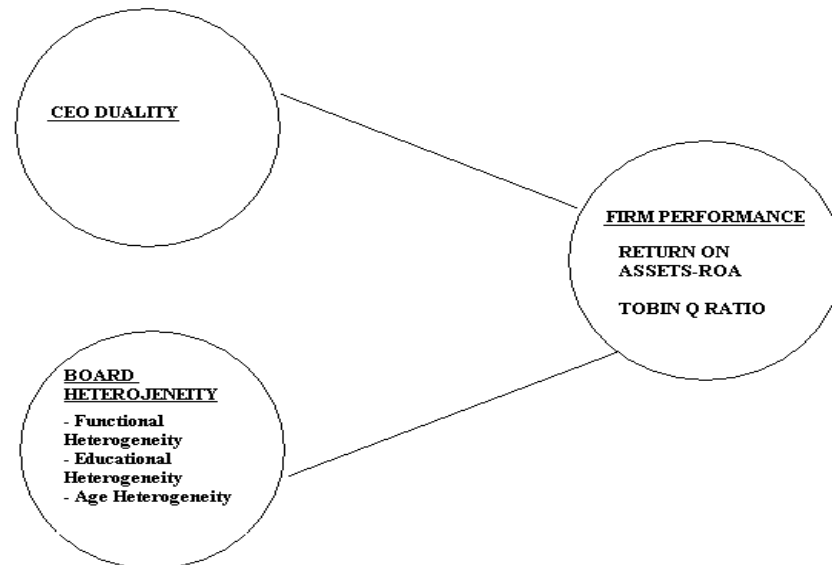
According to Richard and Shelor (2002), age is a proxy for perspectives, belief systems, networks, and affiliations. Wiersema and Bantel (1992) argued the people age their flexibility decreases and rigidity and resistance to change increases. Youthful managers are commonly associated with attempting the risky, novel, and unprecedented (Zimmerman 2008; Boeker, 1988; Hambrick and Mason, 1984; Wiersema and Bantel, 1992), linked to firm growth and more receptive to change, and willing to take more risks than older managers (Wiersema and Bantel, 1992). Firms managed by younger top managers were less likely to experience firm crisis than firms managed by older top managers (Mudambi and Zimmerman 2005). Boeker points out that younger entrepreneurs are better able to understand recent innovations (Zimmerman 2008).

H4: Heterogeneity in the age is positively related to firm performance

Sample Design and Measurement of Variables

Sample that used in this study was derived from ISE Services Index. There are 34 firms which are publicly listed in the ISE operate in different sectors these are; electricity, transportation, sports, tourism, wholesaling and retailing and telecommunications. The reason why the service industry has chosen for research is that service industry is emerging in Turkish context. The data about CEO duality and heterogeneity belongs to period of time (2005-2007) and obtained from annual reports and web site of 26 of the firms operated in service sector of ISE because of unavailability of the data. Board of directors and financial performance sections of annual reports were content analyzed. Model of the research and the variables of the research is shown in the Figure 1. The measurement of the variables was explained after the figure.

FIGURE 1: VARIABLES of THE RESEARCH



Dependent Variables

Two dependent variables were employed to measure firm performance; First variable is ROA, An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.

Second dependent variable is Tobin Q ratio. is a ratio comparing the value of the stocks of a company listed in the financial market with the value of a company's equity book value. The ratio was developed by James Tobin (Tobin 1969). It is calculated as;

Tobin Q= (Total Liabilities-Preference Capital+Market Value)/ Total Assets.

If the Q ratio is more than one, the investment is expected to be more profitable; on the other hand in less profitable investments' Tobin Q values are expected to be less than one.

Independent Variables

CEO Duality: It is measurement by checking CEO and chair person of firms are the same person for each year (2005, 2006 and 2007). CEO duality was a binary variable, If CEO also serves as chair person it was coded 1, if not Zero

Heterogeneity

Functional Background: Functional background heterogeneity was calculated using Blau's (1977) heterogeneity index $(1-\sum i^2)$, where i is the proportion of the group in the i th category. A high score indicates variability in the functional backgrounds among team members, i.e., functional heterogeneity, and a low score represents homogeneity (Smith et al., 1994). The functional categories used to calculate the index were those functional categories frequently used in the study of heterogeneity—finance, human resources, general management, marketing/public relations, operations, engineering/R&D,

Educational Heterogeneity: Educational heterogeneity was measured in terms of background using Blau's (1977) heterogeneity index described before. Educational background categories i.e., engineering, architecture, business administration, economics, law, finance and accounting

Age Heterogeneity: Age heterogeneity was calculated as the coefficient of variation of the top managers' age. A high score indicates age heterogeneity and a low score indicates age homogeneity.

Number of control variables was also employed, these control variables are, size of the board, firm's age. Size of the board was calculated as total number of board member and Firm age calculated as when the firm was established

EMPRICAL FINDINGS

Table 1 reports the descriptive statistics of the variables used in the study. It is understood that in the ISE Services Index, our CEO duality categorization shows in 73 percent of firms chairman wears both CEO and chairman hat despite Capital Market Council of Turkey suggests to the firms which are publicly listed in the ISE. And findings indicate that average ROA percentage of the firms is % 8,30 and Tobin Q ratio is 1,50. When we check firms age and board size; we can see that average firm age is 27 and boards are consist of 7 people. In terms of heterogeneity we can say that boards are seem to be heterogeneous.

Table 1: Descriptive Statistics of Variables

	Observation	Mean	Standart Deviation
Return on Assets (ROA) (%)	78	8,30	16,845
Tobin Q Ratio	78	1,50	1,391
CEO Duality	78	0,730	0,4464
Size of the Board	78	6,88	1,904
Firms Age	26	27,84	20,222
Age Heterogeneity (Variation in the Age of the Board)	78	96,24	58,36
Educational Heterogeneity ($1-\sum i^2$)	78	0,579	0,1558
Functional Heterogeneity ($1-\sum i^2$)	78	0,480	0,1367

For testing Hypothesis 1 (null hypothesis) about CEO duality's effect on ROA and Tobin Q ratio, Least Absolute Value (LAV) regression was employed. Two models were built on for ROA and one for Tobin Q ratio. LAV is regression is also known as median regression model. Median value of dependent variable is estimating by getting sum of absolute deviations around the unconditional median for finding regression coefficients to minimize function of regression (Rousseeuw and Leroy 2003). The estimates of LAV regression model as dependent variables ROA and Tobin Q ratio and CEO duality as independent variable shown in the Table 2.

Table 2: Impact of CEO Duality on Firm's ROA and Tobin Q Ratio According LAV Regression Estimates

Dependent Variables (Firm's Performance Indicators)	ROA	TOBIN Q RATIO
CEO Duality	0,824	0,0178

The LAV regression estimates shows that CEO duality has no impact on firms performance in terms of ROA and Tobin Q ratio. That result shows that Hypothesis 1 is supported. We cannot reject our null hypothesis.

To test relationship between board heterogeneity and firm performance Hierarchical regression analysis was employed. In the first step, control variables (firm's age and board size) add to model as independent variables, ROA and Tobin Q ratio as dependent variables. And in the second step, age, educational and functional background heterogeneity added to model as independent variables, ROA and Tobin Q ratio was added as dependent variables. Results of Hierarchical regression analysis for ROA are presented in the Table 3.

Table 3: Results of Hierarchical Regression

Dependent Variables (Firm's Performance Indicators)	ROA MODEL 1	ROA MODEL 2	TOBIN Q RATIO MODEL 1	TOBIN Q RATIO MODEL 2
Size of the Board	0,026		0,047	
Firms Age	-0,032		0,021	
Age Heterogeneity		0,087		-0,063
Educational Heterogeneity		0,076		0,438*
Functional Heterogeneity		0,364*		0,126**

R ²	0,21	0,61	0,34	0,54
F		19,620*		18,899**

N: 78, Dependent Variables: ROA and Tobin Q Ratio, *p<0,10, ** p<0,05

Results hierarchical regression analysis show that, in the ISE services sector, functional heterogeneity positively related to the ROA of firms p<0,10 and Tobin Q ratio of the firm p<0,05 so that Hypothesis 2 supported both in terms of ROA and Tobin Q ratio.

When impact of educational is examined it is understood that educational heterogeneity is positively related with Tobin Q ratio of the firms in the ISE services index. Thus we can say that results give partial support to the Hypothesis 3. And when there no positive relation with age heterogeneity both in terms of ROA and Tobin q ratio. So that Hypothesis 4 is not supported.

DISCUSSION and SUGGESTIONS FOR FUTURE RESEARCH

Management boards are one of the main predictor of the firm performance. According to the corporate governance principle ownership and management of firms should be separated. Also this study's theoretical roots of this study depends in agency theory and Hambricks and Mason's (1984) upper echelons perspectives. Two main questions was tried to answered in this study, These are Does CEO duality and board heterogeneity affect the firm performance?. To answer these questions, annual reports and corporate governance principles reports of the firms operated in ISE services index was analyzed. And then, LAV and Hierarchical regression was employed.

Findings indicate that in ISE service index, in 73 percent of the firms CEO is also Works as a chair person. That finding is similar with the work of Rechner and Dalton (1991) 78,7 percent, Elsayed (2007) 79 percent and Donaldson and Davis (1991). But when the web site of Capital Markets Board of Turkey is checked it is understood this council strongly recommends to publicly listed firms to separate CEO and the duality. According to the corporate governance also CEO and chair man should be separated person. But our findings show that CEO duality has no impact on performance of ISE service index firms. But also for the future all the firms in the ISE (237 firms) can be included to the sample and then the same procedure can be hold and effects of CEO duality can be explored according to the different sectors.

Board heterogeneity is also accepted predictors of firm performance according to our hypothesis about heterogeneity and performance relation. But the findings showed that only functional heterogeneity is positively related both in terms of ROA and Tobin Q ratio and the educational heterogeneity is positively related in the ROA of the firms. On the other hand Age heterogeneity is not related with firm's performance both in terms of ROA and Tobin Q ratio. Also we can suggest that for the future research, all of the 237 in ISE heterogeneity of board can examined and relation with the firm's performance can be explored.

There are some attempts to analyze board structure and firms performance in the Turkish Context. For example Kula (2005) analyzed 386 mostly small and non-listed stock ownership companies in Turkey and he found that the separation of chairman and general manager positions has significant positive impact of firm performance. And Kaymak and Bektaş (2008) investigated the association of board independence, CEO duality, board size, and board tenure with bank performance in Turkey. These relationships are examined for all 27 Turkish banks operating in the market between the years 2001-2004. Their findings suggested that the presence of insiders has a positive impact on return on assets, while duality and board tenure are negatively associated with performance. As it is understood that there is no study that covers all of the firms in the ISE. Our recommendation for the future research about board structure-firm performance relationship in Turkish context is to reach full sample of the firms in the ISE.

Also there have to be some explanations about the study. As mentioned in the introduction there 34 firms in ISE services sector. But data was gathered only from 26 of the firms. Unavailability of the information about firm's board, information about board members or annual report in their website was the reason. That is also another paradox that we have faced publicly listed firms not to having information about board member of their annual reports.

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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE WITH A PERSPECTIVE ON INSTITUTIONAL OWNERSHIP: EMPIRICAL EVIDENCE FROM TURKEY

A. Osman Gürbüz
Marmara University, Turkey
Ash Aybars
Marmara University, Turkey
Özlem Kutlu
Yildiz Technical University, Turkey

ABSTRACT

Recent financial reporting scandals have increased the attention given to corporate governance practices, resulting in an upward trend in the number of empirical studies conducted in literature relating to this topic. This paper aims to evaluate the impact of corporate governance on financial performance in Turkey, taking the issue of institutional ownership into account. The purpose of this study is also to explore how the financial performance of the companies which are listed in Corporate Governance Index is affected by institutional ownership, distinguishing between domestic and foreign ownership. This paper employs panel data analysis on a sample of 164 firm-year observations for Real Sector firms on the Istanbul Stock Exchange (ISE) covering the 4 year time span from 2005-2008. The study is unique as it contributes to literature providing empirical evidence by constructing several types of models with panel data analysis. Inclusion of the institutional owners, together with a detailed breakdown, also adds to the significance of the study's findings. The results of the analyses demonstrate the positive influence of corporate governance and institutional ownership on financial performance. Additionally, the impact of institutional investors is found to be more strongly pronounced on firms listed on the corporate governance index.

Keywords: *Corporate Governance Index, Financial Performance, Institutional Ownership, Emerging Market*

INTRODUCTION

Corporate governance has been the subject of numerous theoretical and empirical studies especially after the fraudulent financial reporting scandals such as Enron, World.com, Adelphia, and Parmalat. Given the importance of corporate governance practices, many analyses have been conducted in developed countries evaluating the relationship between corporate governance and financial performance. However, the number of studies performed in developing countries has been limited mostly due to problems with data gathering and a lack of investor awareness of these practices. Even in Turkey, the Istanbul Stock Exchange (ISE) only recently launched a special index, the Corporate Governance Index (XKURY); only companies that comply with the Corporate Governance Principles of Capital Market Board (CMB) may participate. This index was introduced in 2005, created to expand the breadth and significance of corporate governance applications and principles. At the end of 2005, only 5 companies qualified for listing on the index. However, the number of companies that currently fall within the scope of this index provides evidence that emphasis given to corporate governance practices has increased their importance. As of the end of 2009, there are 24 companies in total and they are: Anadolu Efes, Arçelik, Asya Katılım Bankası, Coca Cola İçecek, Dentaş Ambalaj, Doğan Holding, Dogan Yayın Holding, Hurriyet Gazetecilik, İş Finansal Kiralama, Logo Yazılım, Otokar, Petkim, Prysmian Kablo, Şekerbank, TAV Hava Limanları, Tofaş Oto Fabrikası, T.S.K.B., Türk Telekom, Turk Traktor, Tupras, Vestel, Vakıf Yatırım Ortaklığı, Yapı ve Kredi Bankası and Y & Y GMYO (ISE, 2009). All these arrangements carried out in our country are undoubtedly very important in terms of becoming a powerful member of the European Union and a trusted commercial partner to all countries of the world.

Empirical studies have documented a positive and significant relation between corporate governance and firm performance (Chen et al. 2008; Chalhoub 2009; Sueyoshi et al. 2003; Mehdi 2007; Brown and Caylor 2009). In

this study, we analyze not only the association between these two variables, but also take the issue of institutional ownership into account. Even though rich empirical literature exists focusing on firm performance and institutional ownership (Ferreira and Matos 2008; Ferris and Park 2005; Ko, Kim and Cho 2005), few of these studies have included corporate governance in their analyses (Chung et al. 2008).

Chung et al. (2008) identify the corporate governance factors as ownership structure, board of directors, outside directors and institutional investor ownership. The major reason why the presence of institutional investors in a firm's ownership structure is taken into account in this study is due to the significance of these investors in corporate governance practices. Based on McKinsey & Company's 2002 survey, institutional investors are found to prefer investing in companies with sound corporate governance structures. Therefore, we try to provide additional insight by analyzing the impact of institutional ownership on financial performance with a distinction between firms that are listed on the Corporate Governance Index and those that are not. Furthermore, we conduct additional analyses to more clearly evaluate performance differences based on institutional ownership categories, specifically foreign and domestic.

The remainder of the paper is organized as follows: first information regarding the empirical analyses, the data and sample selection, the variables employed and the estimation methodology is described; then the findings of the study is interpreted; and lastly concluding remarks are provided.

EMPIRICAL RESEARCH

The purpose of this study is to investigate whether firms' corporate governance practices lead to better financial performance. Most previous surveys and empirical analyses have explored the issue from the perspective of developed economies (Sueyoshi et al., 2010; Aaboen et al., 2006; Bianco and Casavola 1999). Therefore, this study tries to fill in a gap by focusing on an emerging economy, Turkey. One other distinguishing feature of this study is that it performs several different analyses to study the topic in greater detail. First, we try to determine whether companies engaging in corporate governance practices outperform others. Then, we analyze the impact of institutional ownership on financial performance, segregating firms between those listed on the corporate governance index and those that are not.

Data and Sample Selection

Multiple sources have been used in this study to generate the data set employed in the analyses. Financial information regarding the companies is compiled from the publicly available database of the Istanbul Stock Exchange (ISE). The initial sample is composed of all firms listed on the ISE 100 for the four years from 2005 to 2008. However, financial sector firms are excluded to prevent data distortion due to differences in firm operating characteristics. Therefore, the final sample consists of 41 companies making up a total of 164 firm-year observations. It is important to note that data relating to years prior to 2005 are not included to eliminate the impact of Inflationary Accounting Practices on financial statements. Information relating to corporate governance practices is obtained from the Public Disclosure Platform. 13 companies out of the final sample are listed on the corporate governance index. Lastly, yearly information as to institutional ownership percentages is provided from the Central Registry Agency.

Variables

The selection of variables is based on an examination of previous empirical studies. The Table 1 below shows the dependent variable, the explanatory variables, in terms of Corporate Governance and Institutional Ownership indicators, and the control variables employed for all estimated models of the study.

The Dependent Variable

Both stock market and accounting based measures are used in literature to determine firm financial performance. As noted by Prowse, stock market returns are affected by differences between interests of managers and shareholders (Prowse, 1992). Furthermore, Demsetz and Villalonga also note that accounting profit rates are not distorted by investor psychology and do not fail to provide insight to a certain extent into the future by including estimations on issues like goodwill and depreciation (Demsetz and Villalonga, 2001). Therefore, this analysis employs return on assets (ROA) as the dependent variable to proxy for firm financial performance in line with

many studies in literature (Klapper and Love, 2004; Omran et al., 2008; Bhagat and Bolton, 2008; Brown and Caylor, 2008).

Table 1: The Labels and Computations of the Variables

The dependent variable:	
ROA	The ratio of net income to total assets
The explanatory variables:	
A-Indicators of Corporate Governance	
CG	A dummy variable equal to unity if the company is listed on the corporate governance index, and otherwise equal to zero
CG2005	A dummy variable equal to unity if the company is listed on the corporate governance index in year 2005, and otherwise equal to zero
CG2006	A dummy variable equal to unity if the company is listed on the corporate governance index in year 2006, and otherwise equal to zero
CG2007	A dummy variable equal to unity if the company is listed on the corporate governance index in year 2007, and otherwise equal to zero
CG2008	A dummy variable equal to unity if the company is listed on the corporate governance index in year 2008, and otherwise equal to zero
NONCG2005	A dummy variable equal to unity if the company is not listed on the corporate governance index in year 2005, otherwise equal to zero
NONCG2006	A dummy variable equal to unity if the company is not listed on the corporate governance index in year 2006, otherwise equal to zero
NONCG2007	A dummy variable equal to unity if the company is not listed on the corporate governance index in year 2007, otherwise equal to zero
B-Indicators of Institutional Ownership	
INST	The ratio of the number of shares held by institutional investors to the number of shares outstanding
DMFUND	The ratio of the number of shares held by domestic investment funds to the total number of outstanding shares
DMCORP	The ratio of the number of shares held by domestic corporate to the total number of outstanding shares
DMOTHR	The ratio of the number of shares held by domestic other institutions to the total number of outstanding shares
FRFUND	The ratio of the number of shares held by foreign investment funds to the total number of outstanding shares
FRCORP	The ratio of the number of shares held by foreign corporate to the total number of outstanding shares
FROT HR	The ratio of the number of shares held by foreign other institutions to the total number of outstanding shares
The control variables:	
LNSALES	The log of net sales
AGE	The number of years that passed since the establishment of the firm to the observation date
LEVERAGE	The ratio of long and short term debt to total assets
DIVYIELD	Total dividends over market value multiplied by 100
CAPINT	The ratio of net fixed assets to total assets
CURRENTR	The ratio of current assets to current liabilities

The Explanatory Variables

To evaluate the issue from different perspectives, several models are created employing two main types of explanatory variables to quantify dimensions of corporate governance, CG and NONCG, and institutional ownership, INST. Furthermore, these explanatory variables are broken down to subcategories, which are yearly variables in terms of CG and NONCG, and ownership related variables in terms of INST.

As Table 1 shows, the main indicators of corporate governance are CG and NONCG. The explanatory variable CG is expressed as a dummy variable taking the value one if the company is included on the Corporate Governance Index and, zero otherwise. The reason why companies' corporate governance ratings are not used is because of the existence of several different rating agencies in Turkey, which prevents the existence of a single

and common rating for each company. To better evaluate yearly differences and capture the impact of the recent financial crisis on corporate performance in 2008, seven yearly dummy variables are generated. The dummy variable labeled CG2005 takes the value 1 if the company is listed on the Corporate Governance Index in year 2005 and, zero otherwise. Likewise, the dummy variable denoted by NONCG2005 takes the value 1 if the company is not listed on the Corporate Governance Index in year 2005 and, zero otherwise. Other yearly dummies, CG2006, CG2007, CG2008, NONCG2006 and NONCG2007, are generated in the same manner.

The method of Nofsinger and Sias (1999) is followed to define institutional ownership, whereby they use annual fraction of shares held by institutional investors for all NYSE firms in their study. They define fractional institutional ownership as the ratio of the number of shares held by institutional investors to the number of shares outstanding. Therefore, the variable denoted by INST is used to quantify the percentage of firms' shares held by institutional owners. Furthermore, six subcategories are generated, which are labeled as DMFUND, DMCORP, DMOTHR, FRFUND, FRCORP and FROTHR. Table 1 provides a clear explanation of the breakdown of institutional investors. Results of the analysis as to foreign and domestic institutional owners are important to gain an understanding of the overall issue. The Central Registry Agency generates three categories for the breakdown of domestic and foreign institutional investors as follows:

- Investment Funds; comprises mutual funds and private pension plans,
- Corporate; comprises banks, financial intermediaries, corporations and investment trusts,
- Other Institutions; comprises charities, associations and cooperatives.

The Control Variables

Several firm and industry specific factors have to be controlled for to more clearly analyze the impact of corporate governance and, as a second step, institutional ownership on firm financial performance. The control variables employed help neutralize firm and industry specific differences in the sample that have the tendency to affect the dependent variable, ROA.

Firm size is found to affect financial performance and employed by numerous studies as a control variable (Burhop, 2009; Chen et al. 2008, Abdelkarim and Alawneh, 2009; Mehdi, 2007). Therefore, log of net sales is utilized to control for firm size in this study.

Firm age is considered to be one of the factors that are likely to affect corporate performance due to issues such as accumulation of experience and market share. Therefore, using AGE as a control variable is important to evaluate its influence on firm performance, thus, more clearly analyze the link between corporate governance and the dependent variable, ROA. This variable is employed in previous studies as well, such as Patibandla (2006) and Firth et al. (2002).

The debt level of a company has the potential to influence financial performance due to costs of finance and risk of default. Therefore, firm's financial policy regarding degree of leverage is controlled for as in the works of Anderson and Gupta (2009) and Bhadat and Bolton (2008).

To control for companies' future growth prospects, dividend yield ratio DIVYIELD, obtained from the ISE, is used as a control variable. A high ratio of dividend distribution can be an indicator of a company's profit seeking tendency (Thomsen and Pedersen, 2000). Therefore, this variable is used to proxy for differences in performance that arise from companies' dividend policies.

The capital intensity, CAPINT, of the firms is considered as an industry-related control variable and is used to measure the differences in firms' input structures. In their work, Chhibber and Majumdar (1999) indicate a significant and negative relationship between capital intensity and firm performance.

The liquidity of a firm affects its financial performance as it is an indicator of the ability to meet short term cash requirements, preventing it from getting into financial difficulty. However, an excessive amount of current assets has the potential to create problems as those assets generate lower rates of return. This variable has also been employed in the study of Küçükçolak and Özer (2007).

The Methodology

Numerous studies in literature investigate the relationship between corporate governance and firm financial performance. Some of these studies are conducted as surveys (Brenes et al, 2009; Aaboen et al., 2006), while others are performed as empirical analyses. This study employs panel data analysis, which enhances the combination of time-series and cross-sectional observations, consistent with the works of Patibandla (2006), Omran et al. (2008), and Sueyoshi et al. (2010). The general format of the panel data model can be expressed as below:

$$Y_{it} = \alpha + \beta_k X_{k,i,t} + u_{i,t} \quad (1)$$

whereby the dimension of cross-sectional units is represented by i and that of time-series is represented by t . Y_{it} denotes the performance measure, which is the dependent variable of the model; β_k represents the parameters to be estimated with $k = 1, 2$ and so on showing the independent variables; $u_{i,t}$ represents the stochastic error term.

GLS estimation procedure is utilized based on the results of the Modified Wald Test for heteroskedasticity (Woolridge, 2003). Furthermore, the different models used are not found to suffer from serial correlation based on the results of the Wooldridge Test for Autocorrelation (Woolridge, 2003).

EMPIRICAL RESULTS

In this section, results of the econometric analyses are provided to evaluate the association between corporate governance practices and firm financial performance, together with the impact of institutional ownership on the issue. As a first step, the results of the descriptive statistics are shown followed by those of the panel data analyses.

Panel Data Regression Analysis

Table 2 provides the results of the analyses regarding the first two models. As the table highlights, different approaches are used, whereby the first model explores the impact of corporate governance practices on the dependent variable ROA, and the second model evaluates the same issue with a yearly perspective.

The results in Table 2 show that some of the control variables have significant impacts on financial performance. Firm size is reported to be positively and significantly related to ROA consistent with the findings of previous studies (Abdelkarim and Alawneh, 2009; Omran et al., 2008). We observe the significant and negative coefficient of the variable LEVERAGE, which indicates that costs of finance and default risk have a tendency to distort firm profitability. Another study that has the same findings regarding this variable is that of Aderson and Gupta (2009). Our findings also demonstrate the negative and significant relationship between capital intensity and ROA meaning that as the firms become more capital intensive, their financial performance decreases, which can be attributed to the high cost of capital in Turkey during the period analyzed. Dividends are regarded as indicators of future growth prospects, supported by the positive and significant coefficient of the variable DIVYIELD in the analysis. The current ratio is found to be a significant factor with a positive impact on financial performance meaning that firms' ability to meet short term cash requirements is an important issue in determining performance. Another finding relates to firm age, and shows that this variable does not have a significant impact in explaining the dependent variable at least for our sample during the period analyzed. Contrary to our expectations, we are not able to find a significant effect of being listed on the corporate governance index on firm financial performance. However, this may be due to a spurious insignificant relationship between the performance measure and corporate governance arising from yearly differences. Therefore, the second model is estimated to clarify the findings of the study.

In the second model, the signs and significance statuses of the control variables' coefficients are the same as those of the first one. Therefore, explanations provided for the first model are applicable to the second one as well. However, findings referring to the yearly dummies for the companies listed and not listed on the corporate governance index are noteworthy. In this model, the constant term represents NONCG2008. The table demonstrates the significant yearly corporate governance dummies to be CG2007, NONCG2005, NONCG2006 and NONCG2007. The positive coefficient of CG2007 is larger than that of NONCG2007 meaning that companies listed on the Corporate Governance Index outperform those not listed in 2007. However, for the years 2005 and 2006, NONCG firms are the outperformers. This may be due to the fact that the Index for corporate

governance was newly founded in those years; therefore, being listed or not listed was not a significant issue for the stakeholders in Turkey.

Various studies have been performed taking the issue of institutional ownership and corporate governance into account (Patibandla, 2009; Hellman, 2005; Belev, 2003; Davis, 2002). In the second part of the analyses, we develop two more models to evaluate the impact of institutional investors on performance with an emphasis on corporate governance. Therefore, the sample is analyzed as to whether the firm is listed on the index or not, followed by panel data analysis in which the variable INST is included as an explanatory variable to evaluate the impact of institutional investors on firm performance, ROA. An evaluation of the results for the third and fourth model, which are displayed on Table 3, reveals that the existence of institutional investors improves firm financial performance, whereby the impact on the ROA of the firms listed on the corporate governance index is more than those not listed on the index. The signs and significance statuses of the control variables are the same as those of the first model except for the variable LEVERAGE and DIVYIELD. The table shows that the debt level of the firms listed on the index does not have a negative impact on financial performance while it has a negative and significant influence on those firms not listed on the index.

The last set of models is developed to evaluate any differences that exist between different types of institutional investors. In models 5 and 6, firms are separated by being listed on the index or not, following the same approach in the previous analysis. The difference between the last two sets of models is the existence institutional investors' breakdown in the models 5 and 6 as shown on Table 4. The results again reveal the positive and significant impact of institutional investors on financial performance regardless of the firms' being listed on the index or not. However, differences between types of institutional investors are important to evaluate. DMFUND has the largest coefficient but is found to have a significant impact only on CG firms and this impact is larger than those of foreign institutional investors, namely FRFUND and FRCORP. These two types of institutional investors are found to improve financial performance of all firms, with the impact being larger on CG firms. Overall, it can be concluded that institutional ownership is found to have a positive influence on financial performance measured by ROA, whereby this impact is larger on firms listed on the Corporate Governance Index.

CONCLUDING REMARKS

This paper attempts to add to literature by providing evidence from an emerging market on the impact of corporate governance practices on financial performance. One of the distinguishing features of this study is the development of additional models to consider the impact of institutional ownership on performance. Furthermore, the use of panel data analysis enhances the results by empirically investigating the issue from both a cross-sectional and a time series dimension.

The main motivation of this study is the lack of empirical evidence regarding issues of corporate governance, financial performance and institutional ownership for Turkish listed companies. Therefore, the results of our study are crucial in terms of providing insight into the impact of corporate governance practices on financial performance, which is a topic receiving considerable attention after the recent financial reporting scandals.

The findings of the study support the argument that corporate governance practices enhance firm financial performance during the observation period after controlling for firm size, age, debt level, dividend policy, capital intensity and liquidity. As a second step, yearly analyses are conducted and CG firms are found to outperform others in 2007. Furthermore, the affect of institutional investors on financial performance is evaluated, with a separation between firms listed on the corporate governance index and those that are not. As a result of the analyses, institutional investors are found to improve financial performance of all firms, whereby the impact on firms listed on the index is more than those not listed on the index. In the last set of analyses, institutional ownership is broken down to subcategories and DMFUND, FRFUND and FRCORP are found to be significant in terms of financial performance improvement. However, it has to be emphasized that DMFUND impacts only CG firms, whereas FRFUND and FRCORP impact all firms in our sample with the affect being larger on CG firms. This last set of analyses shows more detailed evidence on the positive influence of institutional ownership on financial performance.

This study contributes to literature by exploring how the financial performance of the companies which are listed in the Corporate Governance Index is affected by institutional ownership in terms of being domestic and foreign.

In summary, corporate governance practices and institutional ownership are found to influence financial performance positively. Additionally, it must be noted that the impact of institutional ownership is stronger on the financial performance of CG firms.

Table 2: Results for the Models 1 and 2

Dependent Variable: ROA		
Variables	Model 1	Model 2
LNSALES	0.0084*** (4.14)	0.0058*** (2.95)
AGE	0.0001 (0.50)	0.0000 (0.14)
LEVERAGE	-0.2161*** (-8.05)	-0.1532*** (-6.01)
DIVYIELD	0.0025*** (3.57)	0.0047*** (7.37)
CAPINT	-0.0482** (-2.09)	-0.0443** (-2.19)
CURRENTR	0.0078** (1.96)	0.0164*** (3.80)
CG	0.0097 (0.81)	
CG2005		+
CG2006		0.0274 (0.47)
CG2007		0.0768*** (5.23)
CG2008		-0.0008 (-0.06)
NONCG2005		0.0830*** 3.25
NONCG2006		0.0365*** (3.66)
NONCG2007		0.0552*** (5.22)
constant	-0.0168 (-0.32)	-0.0469 (-0.92)
Number of observations	162	163
Number of groups	41	41
Wald chi2(19)	197.50	320.99
Prob > chi2	0.0000	0.0000
Log likelihood	231.6891	243.9753
legend	* <i>p</i> < 0.10; ** <i>p</i> < 0.05; *** <i>p</i> < 0.01	

+variable dropped

Table 3: Results for the Models 3 and 4

Dependent Variable: ROA		
Variables	Model 3+	Model 4++
LNSALES	0.0062** (2.41)	0.0063*** (3.52)
AGE	-0.0002 (-0.58)	-0.0002 (-0.89)
LEVERAGE	-0.0521 (-0.83)	-0.2181*** (-7.08)
DIVYIELD	0.0015 (1.29)	0.0030*** (3.26)
CAPINT	-0.2221*** (-4.18)	-0.0550** (-2.01)
CURRENTR	0.0319** (2.15)	0.0109** (2.21)
INST	0.2803*** (11.97)	0.0723*** (5.42)
constant	-0.2019** (-2.21)	-0.0023 (-0.04)
Number of observations	20	112
Number of groups	13	28
Wald chi2(19)	355.47	277.68
Prob > chi2	0.0000	0.0000
Log likelihood	41.0707	206.7833
<i>legend</i>	<i>*p < 0.10; **p < 0.05; ***p < 0.01</i>	

+The sample consists of the firms listed on The Corporate Governance Index

++The sample consists of the firms not listed on The Corporate Governance Index

Table 4: Results for the Models 5 and 6

Dependent Variable: ROA		
Variables	Model 5+	Model 6++
LNSALES	0.0044 (1.30)	0.0048** (2.16)
AGE	0.0003 (0.40)	-0.0002 (-0.80)
LEVERAGE	-0.1055 (-1.42)	-0.1981*** (-5.37)
DIVYIELD	0.0017 (0.83)	0.0030*** (3.17)
CAPINT	-0.3031*** (-5.16)	-0.0508* (-1.76)
CURRENTR	0.0446*** (2.82)	0.0124*** (2.66)
DMFUND	1.5774** (2.44)	0.0130 (0.04)
DMCORP	0.1294 (1.38)	0.0008 (0.02)
DMOTHR	-2.5313 (-0.72)	0.1476 (0.65)
FRFUND	0.2424*** (4.37)	0.0789*** (3.05)
FRCORP	0.2369*** (4.64)	0.0894*** (3.17)
FROTHER	-15.6464 (-0.99)	-0.8954 (-0.15)
constant	-0.1158 -1.13	0.0172 0.28
Number of observations	20	112
Number of groups	13	28
Wald chi2(19)	5102.01	209.27
Prob > chi2	0.0000	0.0000
Log likelihood	53.7774	202.3364
<i>legend</i>	* <i>p</i> < 0.10; ** <i>p</i> < 0.05; *** <i>p</i> < 0.01	

+The sample consists of the firms listed on The Corporate Governance Index

++The sample consists of the firms not listed on The Corporate Governance Index

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HOW INSTITUTIONAL CORPORATE GOVERNANCE EFFECT ORGANIZATIONAL COMMITMENT: DEVELOPING A FRAMEWORK FOR RESEARCH MODEL

Pınar Öztürk

Istanbul Commerce University, Turkey

Murat Kasımoğlu

Canakkale Onsekiz March University, Turkey

ABSTRACT

Strategies for overcoming global recession are best developed through institutionalism and corporate governance. The purpose of this study is to refine the literature for modeling the relations among the best corporate governance codes, selected parameters for level of institutionalization involved and organizational commitment. Required codes of Corporate Governance in order to harvest public-open funds, pre-require the well completion of institutionalization for organizations. Performance shown in taking those steps may effect organizational commitment. The developed mediational model searches for the causal relations among them.

Key Words: Institutionalism, Corporate Governance, Organizational Commitment, Mediational Model

INTRODUCTION

Economic crises, fiscal scandals and financial market deficiencies happened in last decays proved that institutionalism and corporate governance are best for use of strategies for overcoming global recession. Organizations affirm Organization Commitment for their members and are expected to follow Corporate Governance practices especially when they are to be funded in national capital market. Their post-institutionalized status may lack necessary strength where they might have pretend it is complied already. The purpose of this study is to refine the literature for modeling the relations among the best corporate governance codes, selected parameters for level of institutionalization involved and organizational commitment.

LITERATURE SURVEY

Institutionalism and Corporate Governance

Institutionalism is the application of orientation, management and control systems those are required for sustainable successful performance (Hergüner, 2007: 72). Sound corporate governance assists corporations in taking into account the interests of various parties, as well as the society within which they operate, and aims to ensure that their boards are accountable to their shareholders. The rationale that follows is that corporations operate for the benefit of the society as a whole; investor confidence is maintained and foreign longer-term capital is attracted (Cuhruk and Ozkan, 2004: 2). Good governance goes far beyond common sense and the interests of shareholders in an individual company. It is a key part of the contract that underpins economic growth in a market economy and public faith in that system (Witherell, 2002: 7-8).

There are various codes of best practices that take into account differing legislation, board structures and business practices in individual countries. However, there are standards that can apply across a broad range of legal, political and economic environments. In this context, the Business Sector Advisory Group on Corporate Governance to the OECD put forward a set of core principles of corporate governance practices that are relevant across a range of jurisdictions. These are (Demise, 2006: 111; Sullivan and Shkolnikov, 2006: 2; Claessens, 2003: vi; Hergüner, 2007: 72):

- (a) *Fairness* to all shareholders, whose rights must be upheld,
- (b) Clear *accountability* by the board and management,
- (c) *Transparency*, or accurate and timely financial and nonfinancial reporting,
- (d) *Responsibility* for the interests of minority shareholders and other stakeholders and for abiding by the letter and spirit of the law.

They are the main (*sine qua non*) concepts in all international corporate governance approaches that are widely accepted (CMB, 2005: 6). Policy makers around the world increasingly argue that codes embodying these principles not only protect investors against fraud and poor stewardship but also may help reduce the corporate sector's cost of capital (Coombes and Wong, 2006: 2). These principles are equally relevant whether businesses are privately, publicly, or state-owned, or are subject to a controlling shareholder (Claessens, 2003: vii).

Selected Parameters for Level of Corporate Governance

Among many of parameters for level of corporate governance; (a) formalization, (b) professionalism, (c) organizational culture and (d) autonomy are held below. Formalization is developing detailed guidelines of appropriate operating procedures and roles of members of the organization, which enhances coordination within an organization (Hartline et al, 2000: 35-36). Professionalism is the thinking of executives about their jobs and taking the high road when the route is tougher. Professionalism means that the practitioner bears a responsibility to the client and to the public that overrides his or her own profit. A professional is not merely a craftsman or a paid employee, but a person who owes his best and most honest judgment, whether or not that is welcome (Tourtellot, 2003: 38-39). Organizational culture consists of shared beliefs, values, and assumptions. Cultural strength is how widely organizational culture is shared and how strongly it is held by the members of the organizations (Slater and Narver, 1995: 67). Professionals can be integrated to the firm by giving them autonomy and authority thus may increase their commitment to the firm. The basis of authority is likely to be professional standards that are defined by superior knowledge or expertness in professional organizations (Wallace, 1995:232).

Organizational Commitment

The stereotypical view of commitment is loyalty and willingness to work toward organizational objectives (Meyer and Allen, 1997: 4). Over a period of time certain costs accrue that make it more difficult for the person to disengage from a consistent pattern of activity, namely, maintaining membership in the organization. The threat of losing these investments, along with a perceived lack of alternatives to replace or make up for the loss of them, commits the person to the organization (Becker, 1960: 36). Organizational commitment is a strong belief in and acceptance of the organization's goals and values, a willingness to exert considerable effort on behalf of the organization, and a strong desire to remain in the organization (Porter et al, 1974: 604). These commitments constrain the behavior of participants in any given organization unavoidably and strongly influence it in some instances (Scott, 2003: 23). Goals and plans make possible employees' identification with the organization and support them by reducing ambiguity and clarifying what they should achieve. Deficiency of a clear goal can harm employee commitment (Daft, 2000: 208).

Organizational commitment is a multifaceted construct and terms like allegiance, loyalty and attachment should be considered in its context as well (Meyer and Allen, 1997: 10). Organizational commitment represents an employee's orientation toward the organization in terms of his or her loyalty to, identification with and involvement in the organization (Robbins and Decenzo, 2004: 229). Committed employees identify with and agree to pursue the company's mission (Dessler, 2004: 386). Committed employees ensure that the products or services which are involved with are of a high quality can respond to changes in customer demands, contain innovative features and will have no negative impact on the wider community as well (Newell, 1995: 6). Commitment means that workers will share the leader's viewpoint and willingly fulfil instructions Commitment is hold as resource for organizations, contributing for to foster the organizational effectiveness and efficiency. The overall success is high as much as commitment level is high (Ofenloch and Madukanya, 2007: 9). Employee commitment and involvement are vital for companies to compete in today's speedily changing world.

Based on different approaches in defining organizational commitment, it has been viewed in three components as follows (Meyer and Allen, 1997: 67): (a) reflecting an affective orientation toward the organization (the employee's emotional attachment to, identification with, and involvement in the organization. Employees with a strong affective commitment continue employment with the organization because they want to do so), (b) Continuance commitment (an awareness of the costs associated with leaving the organization. Employees whose

primary link to the organization is based on continuance commitment remain because they need to do so), and (c) Normative commitment (a moral obligation to remain with the organization).

MODEL DISCUSSION

A refining of the best corporate governance codes, selected parameters for level of corporate governance involved and organizational commitment is employed for hierarchy for a model of a proposed research. The following model mainly represents the dependent variables, the independent variables and the intervening variables.

Before the mediation effect is considered in the statistical methods they first study the association of one variable, X, with another variable, Y. Often a distinction is made between the independent variable (the predictor), X, and the dependent variable (the criterion), Y, to identify the direction of the hypothesized relationship between the variables (MacKinnon, 2008: 6). Organizations affirm Organization Commitment for their members and are expected to follow Corporate Governance practices especially when they are to be funded in national capital market. Organizations may try to compromise those both conditions, first one beliked and the second they are pushed through. However they may fail to strenghten their institutionalization where they might have pretend it is complied already. The model developed is hypotizes that Corporate Governance practices (X) may effect the Organizational Commitment (Y) where it also questions the (mediation or moderation) effect of the level of Institutionalization (M) of the organizations.

Variables

The set of core principles of Corporate Governance practices (X):

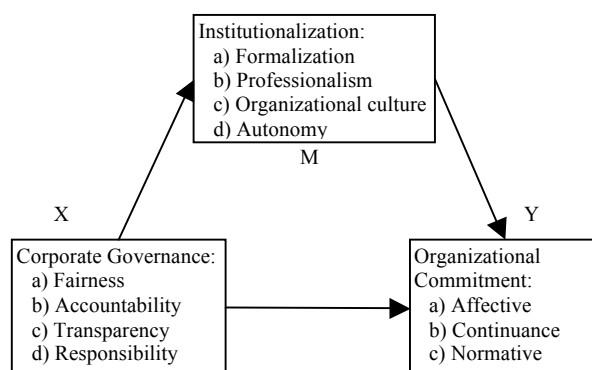
- a) Fairness
- b) Accountability
- c) Transparency
- d) Responsibility

Dimensions of Organizational Commitment (Y):

- a) Affective
- b) Continuance
- c) Normative

Selected parameters for level of Institutionalization (M):

- a) Formalization
- b) Professionalism
- c) Organizational culture
- d) Autonomy



Researchers should recognize that there are no magical methods for assuring the correctness of causal inferences other than a well-developed theoretical framework and the cautious interpretation of the results stemming from analyses based on them. In general, researchers are asked their perceptions of causal relationships whether the causal relationship between one variable and another is positive, negative, or zero, often in the form of a matrix (Aldag and Steams, 1988: 263). The extent one variable causes another variable to move on a scale of 0-1, the

sign of the value represents the direction. A negative sign (-) means an inverse relation and a positive sign (+) means a direct relation. The Causal Analytics is the analysis of data in an attempt to determine which variables cause each other, when and to what extent. Causal modeling may be used to reject causal hypotheses those cannot be defensible, but the result will not necessarily be a correct causal model that cannot be attacked (James and Singh, 1978: 1106). An asymmetric effect is the impact on the one variable happens to be larger than the impact on the other variable and asymmetry analysis can be run with multiple independent variables (Kahneman and Tversky, 1979: 288-289). Multiple regression analysis could be used to identify which set of variables truly drives the dependent variable (Sambandam, 2004: 4). An asymmetric relation is a binary relation which is not a symmetric relation. The set of core principles of Corporate Governance practices (X) and Dimensions of Organizational Commitment (Y) are asymmetrically related.

Mediation is a causal model and in a mediational model, the independent variable is presumed to cause the mediator, and in turn, the mediator causes the dependent variable (Wu and Zumbo, 2008: 369). The mediation model is one that seeks to identify and explicate the mechanism that underlies an observed relationship between Corporate Governance practices (X) and Organizational Commitment (Y) via the inclusion of a third explanatory variable the level of Institutionalization (M), known as a mediator variable. Rather than hypothesizing a direct causal relationship between the X and the Y, the mediational model hypothesizes that the X causes M, which in turn causes Y. M, then, serves to clarify the nature of the relationship between X and Y. A symmetric relation is one in which both X and Y causes each other. By restricting the discussion to two variables and assuming no other variable affects the relation between X and Y, there are four possibilities: X and Y are unrelated, X causes Y, Y causes X, or X causes Y and Y causes X at the same time, a reciprocal relation. Much research and theory are based on statistics from this two-variable system of relations. The correlation coefficient, regression coefficient, odds ratio, and the difference in the mean between two groups (where X represents assignment to the groups) are examples of quantitative measures from a two-variable system. Even in a two-variable system, it can be very difficult or impossible to identify causal relations because these relations are inferred from observed data (MacKinnon, 2008: 6).

In case the third variable is a moderator then it modifies the form or strength of the relation between X and Y. The third variable in this case is not part of a causal sequence but qualifies the relation between X and Y (Preacher, Rucker and Hayes, 2007: 188). Moderator variables are typically introduced when there is an unexpectedly weak or inconsistent relation between the independent variable and the dependent variable (Baron and Kenny, 1986: 1178).

Other than multiple regressions, there are new methods to test mediation models (like Sobel Test for large and normally distributed samples, and Bootstrapping and M-test for small and not necessarily of normal distribution samples) (Hayes, 2009: 5-6).

CONCLUSION

Theoretically the drivers of Organizational Commitment are of the results of institutional applications but they might be skipped or less emphasized in order to catch the codes of Corporate Governance those utilise public funding. In such a rush of finance, organizations do what they can with what they have at that time and go ahead without any clear plan for their institutionalization. Upon this post-institutionalization period the codes of Corporate Governance are applied piously. The developed model first search for that piousness, as discussing for its effect on Organizational Commitment. Stronger or weaker applications in the codes of Corporate Governance may indicate the well completed or missing steps in institutionalization. Thus, level of institutionalization is put into the model as an interactive variable.

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MANAGING THE BANKING CRISES THROUGH THE CORPORATE GOVERNANCE: THE CASE OF TURKISH BANKS

Güran Yahyaoglu
Çanakkale Onsekiz Mart University, Turkey

Mehtap Özşahin
Gebze Institute of Technology, Turkey

ABSTRACT

The 2001 Crisis in Turkey has showed that how systemic failure of corporate governance stemming from poor banking practices, inadequate legal and regulatory systems, inefficient and unregulated capital markets, inconsistent accounting and auditing standards, incompetent boards of directors have led to fiscal crises. After the bankruptcy of some banks during that crisis process, "systemic banking crises" is put in to agenda by the Turkish government and banking sector has been restructured.

Corporate governance has been seen as remedy for those banking crises at that restructuring process of Turkish banking sector. However, some structural factors as like opaque structure and boards of directors may prevent the executing the corporate governance efficiently.

Although there are so many literature on the issue of banking crises or corporate governance, this survey differs from the others by focusing on (1) the reasons of systemic banking crises in Turkey with the case of Imarbank and Demirbank; (2) the role of corporate governance on managing those crises; and (3) the banking-structure related factors preventing the efficient practice of corporate governance as a whole.

Keywords: Banking Crises, Corporate Governance, Opaque Structure, Board of Directors

INTRODUCTION

During the last three decades Turkey has gone into so many recessions and crises arising from the political and financial failures. 2001 Crisis is one of those crises which rooted in financial failures, particularly in banking failures. Indeed, 2001 Crisis in Turkey, has showed that how systemic failure of corporate governance stemming from poor banking practices, inadequate legal and regulatory systems, inefficient and unregulated capital markets, inconsistent accounting and auditing standards, incompetent boards of directors have led to fiscal crises.

Corporate governance systems have evolved over centuries, often in response to corporate failures or systemic crises. Each crisis or major corporate failure –often a result of incompetence, fraud, and abuse- was met by new elements of improved system of corporate governance. Through this process of continuous change, developed countries have established a complex mosaic of laws, regulations, institutions, and implementation capacity in the government and private sector Iskander and Chamlou, 2000:1).

Turkey also has experienced that kind of process in financial sector to manage the systemic banking crises. According to Levine (2002; 7); corporate governance at banks means the structure that operations of those institutions are managed by their board of directors and top management. The structure of corporate governance at banks; includes developing corporate objectives, keeping the rights of depositors, organizing the operations and behaviors with the hope that the banking system can operate in accordance with current laws and regulations, and paying attention to the rights of shareholders.

However some times it may be difficult to achieve those enforcements because of some challenges -such like opaque structure and board of directors structure- arising from the characteristic of banking structure.

CORPORATE GOVERNANCE IN BANKING SYSTEMS

Banks undertake a critical mission in economy through their differential characteristic of deposit acceptance and credit allocation rights. From the point of view of those characteristics, being trustable institutions has been the main concern of the banks over decades. Moreover, the role they are assigned in an economy, as like operation of payment systems, money creation ability, encouraging savings and investments, offering a wide range of financial services to the society are all the issues underlining the economic and social importance of banks. Thus, the cost of failures caused by those institutions has severe effects on society and economy. As Beyaz (2003;10) stated, effective risk management policies and strong corporate governance at banks are very significant issues since banks are so important over the economy and society.

Banks are intermediary institutions which operate as trust institutions and allocating funds collected from saving holders to the business as loans. Because of this important role, corporate governance is crucial for keeping the rights of savings holders and achieving confidence and stability in financial markets (Barth, Caprio and Levine, 2001; 13).

Levine (2002; 7) indicate that corporate governance at banks means the structure that operations of those institutions are managed by their board of directors and top management. The structure of corporate governance at banks includes developing corporate objectives, keeping the rights of depositors, organizing the operations and behaviors with the hope that the banking system can operate in accordance with current laws and regulations, and paying attention to the rights of shareholders.

Even though the importance of corporate governance in banking sector, Beyaz (2003; 10) argues that carrying out the corporate governance at banks is more difficult and complex compared to other companies and organizations. First of all, although the problem of asymmetric information is viable in all companies, it is more significant in banking. One of the most important problems arising from asymmetrical information sharing is the difficulty of enforcing corporate governance principles at the banks that have opaque structures. As a result of this opaque structure, it is difficult for other parties to monitor and assess banks. So, high degree of asymmetrical information in banking system makes it difficult for shareholders and lenders of banks to monitor the acts of directors, The absence of efficient monitoring by minor shareholder and lenders makes it possible for directors and dominating shareholders to use banks' funds on their own interest which constitutes second challenge for efficient corporate governance enforcement.

1. Opaque Structure Challenge

In the case that any party in trading transaction has little information than the counterpart about the product or service, there asymmetrical information issue reveals. Lack of information causes two types of problems on financial markets, as adverse selection and moral hazard.

Adverse selection occurs when any party in the transaction, before it is exercised, is served with counterparts' past, interests and abilities in misleading way. Therefore, parties of trade struggles to show themselves as trustable, hard working, qualified and affect the trade in favor of them. John, Saunders and Senbet (2000; 27) underline that moral hazard arise when the demanding party cannot have full details of acts of counterpart and this is costly. Trading partner, in those circumstances, have strong sensations not to fulfill the performance standards stated in the contract. It can be exemplified in banking as that the credit demanding customer changes his or her behavior after receiving the credit payment and causing the bank to make loss. If the bank customer struggles to reduce risk he or she is exposed before using credit, but does not show the same effort after receiving the payment or starts behaving to increase risks, there occurs moral hazard.

Adverse selection is a problem that exploits the asymmetric information about the future performance before the contract, whereas moral hazard is the problem that exploits the asymmetric information about the current performance after the contract.

Besides information asymmetry between bank shareholders and governors, below mentioned information asymmetry types are also existing:

- a) Between savings account owners, bank and regulating authority
- b) Between bank owners, directors and regulating authority
- c) Between lenders of bank, directors and regulating authority.

Problems arise from those information asymmetries are the inability of monitoring bank performances, the issue that bank owners and governors prior their individual benefits, and opaque structures averting competitive management.

On the other hand Mortlock (2002;27-32) argue that inability of monitoring the performances of banks successfully is one of the main reasons arising the information asymmetry. Buyers in production and service markets make transaction in current time. For instance, as can be seen in the cases that a car or the service of a worker is not enjoyed, defects of goods in production and services may occur in near future. However money is saved on bank in current time and it is transacted with the expectation that it will be repaid at maturity. Credit quality in banks cannot be seen in a short time, even it can be hidden for a long time.

Ciancanelli and Gonzalez (2000;5) argue that this type of opaqueness, in other words, difficulty in estimating the recent performance of the company is much more complex in banking industry for the reason that loans in banking, generally, cannot be subjected to liquidate in secondary markets. But pension funds or insurance companies just can deal with that opaque issue by subjecting their assets to resell in efficient secondary markets. Furthermore, the liability arising from insurance includes the same information problem with loans. Consequently, banks, pension funds and insurance companies are much more affected from the delivery of asymmetric information.

Banks can change their risk composition of their assets faster than companies in real industry. Banks have ability to reallocate credit to firms which failed to repay their previous credits and hide their existing troubles in a short time. Increase in inventories of production companies is a negative indication of inefficiency in company performance. On the other hand, in the case of increasing cash amounts and banks become more liquid, it is too much difficult to distinguish whether it is the indication of inaction or bank follows deliberate management practices in a risky environment.

The case that bank owners and directors look after their individual benefits arise from lack of transparency and institutional structures. This type of structures provide more possibility to company owners and directors to use the rights of creditors in favor of themselves. Risk taking behavior in this case occurs altogether as using the assets of others iniquitously. Here Beyaz (2003) note that fraudulent bankruptcy will become widespread when the accounting system in a country is poor; legal regulations are inefficient and punishment is low; regulations encourage company owners to convert the situation for their own benefit and not to pay their debts.

Prowse (1997;29) state that opaque structure of banks provides ability to major shareholders, holding governance and auditing rights, using the assets of the bank in the way of risking the effective operation of the bank, directly or indirectly. Banks often are prone to engage in more risky operation in the hope that creating high interest income and profit amounts. Because of this ambitious will they may allocate credit to firms in the trouble of repayment of previously used credits. Therefore, dominating shareholders of the bank mislead the market by using the information asymmetry in favor of them and have the ability to show their financial position as strong and profitable in a given period. Similarly, if there is an oligopolistic market, banks mislead market prices by manipulation and victimize other investors. Depositors as the main source of funds and other lenders of banks can not audit the bank because of opaque structure.

According to Porta, Lopez, Shleifer (2000); in many less developed countries, the existence of a few conglomerates which have dominance in overall economy, especially in banking, and structured as family company, eases abuse of bank shareholders and governors. This abusement arises against the benefits of minority shareholders, depositors and tax payers. For instance, in Indonesia a country which is depending mostly on agriculture and has relative underdeveloped economy, a serious crisis occurred at the end of 1990s although there was not a significant income decrease in agricultural sector. The use of funds by bank owners for their own benefit caused the crisis to become much more severe. Some banks allocated credit to their shareholders ranging from 85% to 345% of their capital and those credits were not repaid.

According to Article 32 of Turkish Banking Law, all banks are obliged to establish an internal auditing system including the organization as a whole. In this framework, the consistency of operations to legislations, general agreement, internal principles, and banking principles are audited by bank inspectors. According to the same

article, auditing function is fulfilled by minimum required number of inspectors and paying great attention to job ethics. Auditing reports on three month period basis are delivered to board of directors.

1.1. The Case of Imarbank Related to Opaque Structure Challenge

Akçay and Bolgün (2003;73) indicates that Imarbank scandal was so serious in the banking literature. Bank was acquired by Uzan Group in 1984. Imarbank was taken into enclosure of 64. article of 3182 numbered law on 20th June 1994. The reasons of close monitoring of the bank are allocation of all credits to Uzan Group, diverging from banking functions, damage of income-expense balance, decrease of profitability and liquidity tightness. After the foundation of Banking Regulation and Supervision Agency (BRSA), because its riskiness continued, Imarbank remained to be monitored. BRSA wanted the bank to serve a plan to deal with the problems. However, plans developed by bank management were not accepted realistic, BRSA wanted reducing risks depending on Uzan Group and solidify its capital structure, by detailed directives. Due to fact that bank did not in accordance with instructions, BRSA assigned a board member with the power of veto on 12th July 2001 and increased number of members to two on 26th December 2001. Within the context of the Program of Divergence of Bank Capitals, by three step auditing process over 2001 financial results, 284 million USD of 910 million USD group risk collected, guarantees were acquired for loans allocated to the group (50 trillion TL alienation for collections from Çukurova Electricity), Uzan group increased the capital of the bank by 70 trillion TL.

Article 50 of Turkish Banking Law underlines that banks cannot allocate cash or non-cash credits to board members, general manager, authorities to give out credits, their spouse and children, shareholders owning more than 25% of the capital, any in cases. However, Imarbank was the main source of financing Uzan Group projects. Before confiscation of Imarbank by SDIF, there occurred extraordinary events. Privileges allowed to ÇEAŞ and Kepez, electricity companies belonging to Uzan Group, were cancelled on 12th June 2003. Same day, BRSA empowered the assigned member in the board with veto and stricted allowing no extra funds to the group at all. Due to fact that contradicting practices with those directives increased until 25th June 2003, BRSA reiterated its directives. Based on the reports from the bank to BRSA, those issues were reported in the period of 12th June and 25th June, 2003: 89.8 trillion TL and 24.7 million USD of deposits were withdrawn. Net liquidity on 12th June 2003 as much as 41.9 trillion TL decreased to 6.6 trillion TL on 25th June 2003. In contrast to directives, there was seen some actions of turning off-shore accounts into deposits. Therefore, it was decided to make close monitoring of transactions.

Imarbank gave up sending reports and other documents to BRSA on 26th June 2003 and averted distant monitoring. Similarly, all board members resigned except the member assigned by BRSA, on the same day. Those people, in such a hard time, caused the bank to face managerial problems by their resignation, not obeying their obligations given by Trade Law and Code of Obligations. On the following days of batch resignation, liquidity tightness increased and problems occurred in repayments.

It was impossible to make any decision between 13th June and 2nd July 2003, because there were only four members in BRSA and no member was assigned for vacancies. By the assignment of new member on 2nd July 2003, a new board of directors members was appointed to the bank. Deposit insurance about 50 billion TL became unlimited on 3rd July 2003 and permissions of Imarbank to banking and collecting deposits were abated. (BL 14/3). Management and supervision of the bank was acquired by the SDIF (BL 16/1). It was foreseen, thus, to pay just savings deposit accounts instead of all liabilities, and demanding the bankruptcy of the bank.

Why the 14/4 article was not applied in handing over? 14/4 article of Banking Law can be applied when the major shareholders use the funds in favor of their individual benefits and risking the efficient operation of the bank and causing it to make loss. However, such a determination could not be stated. A special way followed for Imarbank. For previously confiscated banks, their banking permissions were not abolished.

A strategy for those banks to restructure and sell was followed previously. As the method followed so far required, all liabilities of the confiscated bank was undertaken by SDIF. Data on hand indicates that almost all of on-balance-sheet liabilities of Imarbank were composed of deposits under 50 billion TL and under the guarantee of Savings Deposit Insurance, while almost all of off-balance-sheet liabilities were composed of risks from Uzan Group. Such a way was accepted with the idea that it would not bear any difference in practice for saving the rights of victims and minimizing the public cost by not undertaking the liabilities from the group. Information systems of the bank was outsourced by Merkez Investment AS., an Uzan Group company and shareholder of Imarbank. When banking records were required to use auditing of BRSA, records at Merkez Investment and back-up systems were all locked away, substitution of locked reports was not possible due to

batch resignation of key managers. In contrast, Legislation for Internal Auditing and Risk Management Systems, Article 14 underlines that banks must hire efficient systems, reliable, state-of-art, allowing in-time access to data stored at main memory. However, information systems of Imarbank had been built up for illegal transactions.

Another issue was that how the access to records was impeded? As a result of impediment of access to records, head office and some branches were visited for inspection. Because the records on computers on hand and transcribed were not enough, it was started to collect documents from victims. 4th August – 1st September 2003 period was spend with collecting documents from victims and inspection of them.

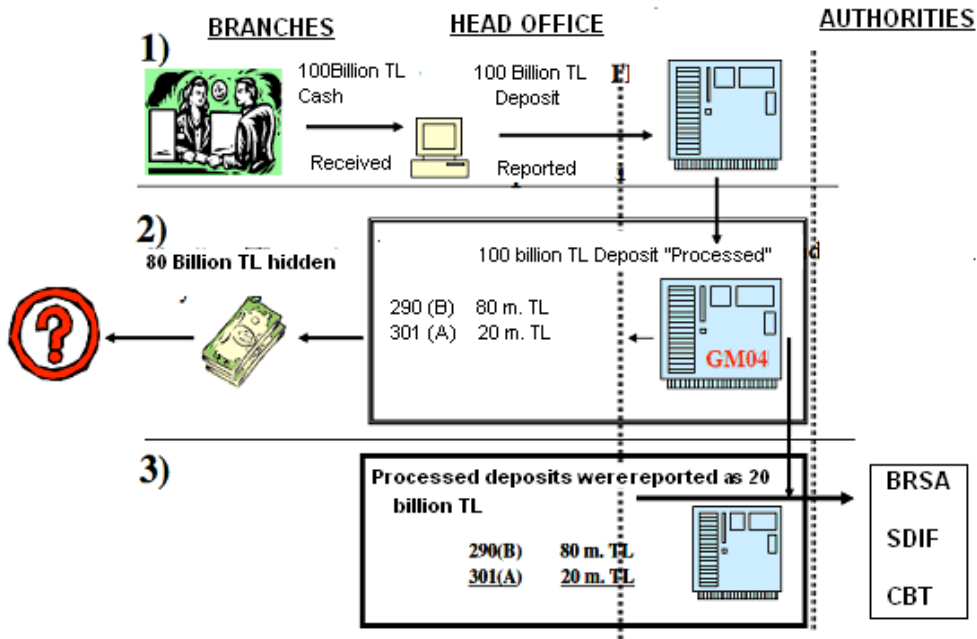
As of 25th June 2003, the last day of reporting, savings deposits were accumulated as 753 trillion TL, exceeding too much the announced levels. Due to such a difference, because it was impossible to compensate so high amounts by SDIF, Treasury and the government set in the process. Law infrastructure of this case was built by the 4969 numbered law on 12th August 2003. Draft of enactment prepared within the framework of this law, and determining procedures and principles for the payments to victims, was sent to Treasury on 12th September 2003. Payments would be made in accordance with procedures and principles stated in the enactment and within the availability of budgetary possibilities.

According to Article 14 of Turkish Banking Law; Banks established in Turkey may open branches or representative offices abroad, including off-shore banking regions, on the condition to set up undertakings or participate in existing undertakings comply with the corporate governance and protective provisions set forth herein and to comply with the principles to be established by the Board; Permission for authorization of independent audit, valuation, rating and outsourcing institutions

Numbers of transaction were observed contradicting to legislation. Data on hard disk of computer systems at Imarbank allowed just making the inspection for 2003. Those records, enabled to the identification of some points. The difference between the total of actual deposits and reported deposits, was based on converting off-shores to domestic deposits, unlicensed and short-selling of government bonds, low reporting of deductions from deposits interest income (stoppage, funds, taxes) and other illegal transactions. Due to determinations about branches, education level of branch managers were relatively low, compared to other banks. Minimum authority had been allowed to branch managers. For instance, branch managers had no authority to allocate credits. Victims had to demand even for their small amounting deposits before they withdraw. General reporting was impossible from the system in branches. Residual amounts were examined on the basis of bank slip from information system at branches, were not accessible. Data to be the basis of ledgers was prepared by head office. Ledgers prepared by using this, do not correctly reflect the account figures. Recording system was interestingly manipulated in transactions contradicting to legislation. All transactions occurred at branches transferred to hard disk located at head office, consequently at Merkez Investments AS. Financial results of each branch and, in general of the bank, were prepared by the manipulation of data transferred from branches. Bank had been hiring two types of software to manipulate data. One of software hired had been used for decreasing the results of deposits, taxes, and expenses by fictitious debt/credit records. Other software had been used for wiping off bond transactions with customers from auxiliary accounts. Manipulated data auxiliary book, trial balance, general ledger were sent to branches.

Branches transferred all real data to main memory at head office. By using a software called GM04, under the right to use of a few people, deposit accumulation was reduced on account basis, reverse transactions were made for a given date, amount, account and branch. “Account closure”, “paid” notes for records by GM04 were attached to auxiliary books sent by head office to branches and no detailed statement was supplied. For reverse transactions, 290 numbered branches current account was used. Counter transaction for accounting could not be identified. Not allowing 290 numbered account to give balance in banking techniques is only possible by the reverse transaction of the opponent branch. Article 18 of Legislation for Internal Auditing and Risk Management Systems obliges that banks must group their risk types, evaluate each group, control and manage each risk type. Imarbank, however, used all deposits as a credit source to Uzan Group paying attention to no risk management principle. Credit worthiness of Uzan Group from Imarbank was unlimited.

Figure 1: Reporting Deposits Low



Source: BRSA

Although it is allowed to operate on behalf of a bank abroad, driving customers to open an off-shore account is forbidden. According to Article 96 of Banking Law, without order, banks are not allowed to transfer deposits to offshore and reverse. If so, bank is liable to results of the transaction. In Imarbank case, off-shore deposits were converted to domestic deposits. Bank allocated credit to group companies from off-shore since 1994. After every inspection, bank management was alerted about the issue. Several protocols were made about reduction of off-shore deposite. Lastly, on June 2003, a directive was dictated to the bank "not to convert off-shore deposits to domestic and not to depo in off-shore". Bank ignored all directives since 2003 June and continuously increased off-shore deposite with the purpose of transferring to domestic deposite. As a result of inspections, after the directive on 12th June 2003, deposite converted from off-shore was 616 trillion TL, 17.5 million USD and 9.4 million Euro. Government bond transaction were also made contrary to legislations. Imarbank had given up all of its intermediary operation in Istanbul Stock Exchange since 31st October 1989, called back its representatives and closed its desk. Here upon, Capital Markets Board of Turkey decided to cancel the bank's permissions of agency and membership at ISE, on 25th October 1990. However, the bank continued to make intermediary transactions, contradicting to legislation.

Article 42 of Turkish Banking Law The original letters received and activity-related documents, or proper copies where the original ones are not available, as well as the photocopies of letters written shall be kept in order of their number and dates for a period of ten years within the body of the relevant bank. It is possible to keep such documents in the form of micro films or in electronic or magnetic environments. Same Articles urges banks keep their records for 10 years within the bank. Imarbank systematically made short selling of government bonds at significant amounts since October 2002. It was observed on 30th June 2003 that, although it had a portfolio of government bonds around 15 billion TL, it collected 728.4 trillion TL from victims by short-selling of bonds. Volume was hidden by the software applied in wiping off auxiliary transactions. Documents of all transaction were sent to head office, no document was hold at branches. Very few of documents received from branches was signed by authorized managers at head office. This activity was contrasting to Article 42. Signed documents reflected to deposited securities account, thus, registered to ISE. However, on 3rd July 2003, it was understood that really sold bonds were also not within the bank. As of 4th July 2003, Bank had made short selling of bonds amounting to 728 trillion TL, with the nominal value of 1,023 trillion TL. As Richter (1990,154) stated, the complex continuing business relationships among savers, credit users and banks can be assessed as a relational contract. Due to fact that it is an incomplete contract as argued by Hart (1994) that eventually may required further regulation. In continuing business transactions any party may relay on private contract enforcing mechanisms such as reputation, for instance. Individual monitoring in banking is impossible, on the other hand, because of a collective action problem. Dewatripont and Tirole (1994,117-118) underlines that unsophisticated and small parties on banks suffer from information asymmetries and have little chance to invest in monitoring as a result of a free rider problem. Depositors must be represented actively by organizing 'delegated' monitoring. In contrast, if no ability of private representation is or can be provided, regulation may be required there. Public

regulation of banks is a very complex issue, thus should limit itself to a complementary role by light-handed regulation.

Deductions from interest income reported at very low levels. Taxes were reported low by using GM04 software with reverse transactions. Just 3-10% of income tax stoppages deducted from customers were paid. It was observed for the first 5 months of 2003, the amount not paid to tax administration was around 125 trillion TL. Penal provisions are stated in tax legislation.

2. The Challenge of BOD (Boards of Directors) and BOE (Board of Executives) Structures

In all enterprises of market economies, the board of directors (BOD) functions as the intermediary between owners and managers. It is responsible for protecting shareholder investments by ensuring management performance and accountability (Pannier, 1996:16). Thus, boards of director are widely believed to play an important role in corporate governance, particularly in monitoring top management. BOD are supposed to supervise the actions of management, provide advice, veto poor decisions. In other words it is seen as the shareholders first line of defense against incompetent management (Weisach, 1988:431).

Macey (2001;6) contributes that corporate governance in banks means a structure that business and operations of a banks are managed by board of directors and top managers. Corporate governance indicates the management philosophy of the bank, by underlining the development of corporate objectives for banks, realizing daily operations, paying attention to the benefits of employees, customers and other bank related institutions, managing corporate governance and behaviors, and saving the rights of depositors.

Although stressful economic conditions affect bank's performance, decisions and policies of directors and top management have more significant impact on the success or failure of the bank. La Porta (2000;33-37) argues that usually within the banks having poor management, besides external negativities, wrong credit policies of bank management such as insufficient functioning of mechanisms determining problematic credits, lack of mechanisms adapting bank policies and laws, credit allocations contradicting to banking principles due to aggressive policies of top management and extensive credit allocations are among the milestones of banking problems.

The main one of governmental problems in corporate governance processes is lack of interest of directors and top management on bank's operations and lack of information about banking. It must not be expected too much from a board of directors that is lacking experience and knowledge about banking industry, or acting passively in controlling the bank operations, for good corporate governance.

In order to determine strategic objectives of the bank and to allocate the required financial and human resources efficiently in achieving those objectives, board of directors should not compose of members who lacks of banking knowledge and experience and the ability of assessing and managing risks) Macey (2001;6) also indicates that although board members do not have knowledge or experience inadequacy, in the case of passive management, executive board can be controlled by some dominant members of the BOD, who follows the a few privileged shareholders' interests. In case of such a management, executive board includes passive members who are not able to interrogate whether the practices of BOD or top management's practices are in consistent with banking principles and related laws.

On the other hand, in too much aggressive boards that target profitability and growth; asset quality of the bank, the size of risks undertaken, and banking ethics are mostly disregarded. Although it is admired that aggressive approaches combined with well developed policies and control mechanisms can give good results, it is required that bank management must prevent too much aggressive practices which have the potential to harm the solidity of the bank.

The role of board members in corporate governance determines the maintenance of the quality of corporate governance. Especially, policies to prevent the behaviors, actions and relations having the risk of reducing the quality of corporate governance, should be adopted. Those behaviors and relations can be in form of allocating advantageous credits to the relatives of managers or directors in bank. Moreover, some issues such as providing privileges of maturity and bonification advantages to some people and institutions related to the bank, exempting from commission payments, can be mentioned. Chong (2004;46) states that bank management should execute the required policies considering that those behaviors may lead to clash of interests; monitor the relevancy to

those policies; and create possibilities of reporting possible deviations from those policies at different management levels.

According to Mortlock (2002;27-32) members of BOD determine main policies of bank operations, assign top management to implement those policies and fulfills the complete management of risk that the bank is exposed to. Duties of BOD and bank top management must be separated. In this context, first of all, bank board of directors must assign skilled executives. Bank performance can be monitored by building an efficient internal control mechanism. In order to fulfill those duties, BOD must determine the borders of authority and must assure that top management fulfills these policies; must hold the control mechanism although leaving the fulfillment of daily operations to top management.

Meanwhile, general manager and other top level managers responsible for the operation in bank corporate governance, have vital role in the success of the bank. According to Ciancanelli (2000;5); general manager and other top level managers must have required skills and experience to manage the bank successfully, so that the bank can grow profitably and maintaining the asset quality. In this context, it is important that a bank must have assigned a general manager and other top managers capable of adapting corporate governance for the bank's success. As mentioned before, whether he is successful or not, leaving the decision making process to the authority of a general manager for bank's management would cause the bank to be under the control of a dominant person and cause some problems.

Banks which adopted a management style far away from corporate governance approach- do not have systems providing consistency with bank policies and laws; top managers and departments of those managers are not monitored enough, decisions of the banks are made by dominant executives such as general managers, controlling shareholder -and board members. Barth (2001;11-15) argues that it is impossible to mention corporate governance principles in a bank managed by e such a executive who can not achieve required effectiveness within bank organization structure; can not realize intra-bank relations and communication; lacking consistency with trusteeship and ethics, can not monitor the bank's performance, can not implement policies to increase the success of bank, can not perceive the risks that the bank has undertaken.

Caprio (2002;7) underlines that general manager must follow his duties with honesty in the behalf of the shareholders and perceive his role in the management of the bank, in order to contribute the strengthening the corporate structure of the bank. General manager, on the other hand, must also fulfill his role in management of daily operations, must be aware of his right to assign top management of the bank and assert for right disclosure of top management.

Board of directors and general manager must be responsible for necessary controls and creating required balances about other managers. Similarly, other managers must also undertake the responsibility of general manager's control in various operation areas of the bank. For small sized banks, too, decision making process should include more people rather than one person. In efficient corporate governance, a great attention must be paid for the selection of top managers responsible for decision making processes of bank's operations.

As a result, it is very important to establish good corporate governance practices in banking industry in order to enable solid operation of the system, to protect the interests of depositors, to increase the value of the banks' stock prices to highest possible levels within a competitive environment in line with trade ethics, vision, purpose and criteria. Banks, for this purpose, must be aware of their responsibilities against customers, shareholders, employees and business partners, operate in accordance with business laws and regulations, obey ethical values and business ethics in a competitive environment. Corporate governance principles of banks must depend on strategic vision, responsibility, achieving performance targets, accountability, transparency and lawfulness.

2.1 The Case of Demirbank Related to BOD and BOE Structures Challenge

Before Savings Deposit Insurance Fund seized it, Demirbank was a prestigious bank, belonging to Cıngıllıoğlu Group (Akçay and Bolgün, 2003;66). November 1999 and February 2000 crises must be well understood in order to comprehend the issue. When the economic conditions before crisis are examined, economy contracted by 6.1%, inflation reached to 70%, interest of government bonds exceeded 100%, double digit inflation for 30 years become unsustainable, and economy was facing hyperinflation threat. Turkey signed stand-by agreement with IMF and looking for ways to rescue from these circumstances. A new economic program including three main principles was started by the support of IMF:

- Disciplining budget and extra budgetary public finance

- Determination of exchange rates by predetermined currency peg
- Realizing reforms and accelerating privatization.

The main purpose of this frame was reducing inflation and achieving a sustainable growth. Budgetary part of the program targeted to increase budget surplus excluding interest payments. This was aimed to be achieved by increase in tax revenues and reduction in domestic borrowing costs by switching from domestic to external borrowing. In monetary policy, a target of Net Internal Assets around 1200 trillion TL for the central bank. Central bank would supply liquidity only by offset of currency inflows. When the domestic borrowing need of treasury, the amount of funds available for other actors would increase, extra liquidity would be supplied by money created by offset of exchanges, thus, any liquidity stress would be prevented. Positive effects of the new program appeared on markets immediately. Average compounded interest rates of 1999 reaching to 106% decreased to 36% in January 2000. Interbank overnight rates average decreases from 66% in December 1999 to 34%. Decrease of interest rates so quickly was indicating a risk for inflation levels. Decrease in interest rates was favoring the cost of borrowing for treasury but, damaging inflation contends of central bank. Central bank normally would not allow such a case to occur. However, because the attitude of both politicians and the society as a whole was in the situation of allocating funds to renters, the probable impacts of this rapid decline was not paid attention. Even central bank was fascinated with this issue. Although many economists argued that this situation would cause serious problems for inflation contend, they were not successful to get their theories admired by others.

Table 1: Treasury Auctions Average Interest Rate

Months	Compounded interest rate Average(%)
Average of 1999	109%
January	37%
February	41%
March	36%
April	34%
May	36%
June	40%
July	32%
August	33%
September	34%
October	38%
November	39%
December	36%
Annual Average	36%

Source: Undersecretariat of Treasury

The issue that monthly average interest rates of treasury from 109% to 106% starting from the first month caused serious problems in inflation contend. Postponed consumption spending started to be realized immediately. Savings started to be spend for consumption even by the support of low interest rated consumer credits by banks. Consequently, because domestic demand remained being eager, real decline in inflation did not occur at expected levels. Investors who understood that currency peg could not be remained too long, especially foreign banks, preferred closing their exchange positions. Banks tended to close their open positions at the end of October 2000 because of year end results end budgetary purposes. This increased the need for liquidity, consequently, interest rates. This was a well known case because banks do the same in every year end. When the overview of Turkish economy is analyzed, growth rate was moving towards 6.5%-7%. Therefore, the shrink of 1999 about 6.1% was returned into growth. Eager domestic demand as the main source of economic growth was oriented both domestic market and imports. In contrast to eager domestic demand, inflation declined from 69% to 40%. The reason why the inflation could not decline rapidly is eagerness of demand fueled by consumer credits of banks. Unexpectedly fast decrease in interest rates brought allocation to spending of the amount can be saved from income. This case created a medium for demand to increase, consequently, the decrease in the inflation lower than the expected. Budget was running ahead a record deficit. In other words, inflationary pressures from budget deficit was being eliminated gradually. Reforms postponed so far had been realizing. Banking system was being restructured. Privatization revenue equal to 15 years was realized in 2000 itself. Although current deficit was running to 8-10 billion USD, it was commonly accepted not to risk. There was no apparent cause for a crisis at the beginning of November. Banks were struggling to close their open positions and

foreign investors were demanding foreign exchange to close their accounts. Those issues were resulting into increase of interest rates. New regulations was forcing banks to close their open positions and hold more liquidity. Banks tended to buy more exchange to hold more liquidity. This increased liquidity demand forced interest rates to jump suddenly. Starting crisis and increased interest rates troubled banks holding excessive amounts of bonds and using them in repo transactions. Banks with lack of liquidity and in the obligation of funding bonds started to face big losses. Furthermore, the whispering news that several banks will be owned by SDIF, drove banks to cancel their lines against others. So serious liquidity problem caused banks to be ready to borrow at too high rates. This steep increase in interest rates resulted into decrease in liquidity of secondary markets. Foreign investors leaving the market at first for year end transactions, started to mean the market in a different way and left the market immediately. This tendency caused interest rates to increase much more. Turkish banks were purchasing Turkish securities by joint funds supplied by foreign banks and the profit was delivered among partners. The whole risk was undertaken by Turkish banks. Due to increased stress in markets, foreign banks tended to sell the securities and withdraw the funds. In order to meet withdrawal demand of foreign banks, Turkish banks started to demand more exchange by their funds on hand. This was another reason behind the liquidity tension in markets. Average of November for interest rates as much as 72.4% jumped to 223.8% in December. When we look at daily results of repo markets, development can be well understood.

Table 2: Change in Overnight rates

Days	Overnight Repo rates
01 November	44%
10 November	30%
15 November	92%
22 November	153%
28 November	200%
01 December	727%
04 December	1275%
15 December	63%

Source: Undersecretariat of Treasury

Cancellation of treasury auctions caused the crisis too much serious. At three auction in January 2000, average interest rates were about 63%. As it is common in all crises, the tension in financial sector spread over real sector. Interest fluctuations in markets damaged eagerness of demand immediately. Decrease in demand reduced sales of real sector and increase in inventories. It was inevitable the impact of tension in real sector and upcoming crisis over the financial sector. There was significant increase in non-performing credits. This event drove banks to reduce their credits allowed to real sector.

La Porta (1998;1127) argues that banks should act in accordance with risk legislations for the solidity of the bank. They should apply to risk diversification. However, Demirbank ignored all risk management principles and invested in risky assets. However, all risks undertaken were realized and it went into bankruptcy. The main reason of the crisis besides below points is also the spreading out of the approach focusing solely on profit, ignoring risk assessment, undertaking excessive risks. All issues in fact was a liquidity crisis. One obtained liquidity did not seek exchange. Instead, liquidity tightness due to a common exchange demand in every year end caused a dramatic jump in exchange demand. In fact, even in the most stressful time of the crisis, demand for exchange from real sector did not show a significant increase. Basic point of liquidity crisis was the fact that new regulations would be implemented in very short period. Crisis was mis-diagnosed by the authorities, thus, mis-treated.

Consequently, SDIF confiscated Demirbank and Sitebank. Demirbank was the most effected institution from the crisis. The case of Demirbank was too serious. Management strategy lacking from risk management caused numbers of banks to threshold of bankruptcy. When the costs of excessive risk taking were compared to possible profit, there occurs dramatic results. Demirbank had very strong public image and its bankruptcy was gobsmacked. However, it was sold for price that is too low from its original value. When the balance sheet of Demirbank is examined, there can be observed very significant managerial mistakes.

Table 3: Demirbank Gap Analysis (billion TL)

	Demad Deposit	Upto 1 month	1-3 months	3 months - 1 year	1-5 years	5+ years	Undelivered	Total
Assets	118.023	199.328	197.619	884.599	1.340.552	0	422.842	3.162.963
Liabilities	196.322	1.945.426	355.700	226.501	59.656	0	379.358	3.162.963
Gap	-78.299	-1.746.098	-158.081	658.098	1.280.896	0	43.484	0
Cumulative Gap	-78.299	-1.824.397	-1.982.478	-1.324.380	-43.484	-43.484	0	

Source: ISE

Gap analysis of Demirbank, therefore, must be well examined. Ambiguity in banking industry and money markets deranged investors. Tendency to hold savings on short term instruments raised up. Although assets maturity was as much as 1-2 years, maturity for liabilities had an average of 30-45 days. 90% of deposits has a maturity of shorter than 30 days. When the Gap analysis of Demirbank was examined, it can be observed that bank had a cumulative 1.8 quadrillion TL in 1 month maturity period. On the other hand, when repo amounts are also taken into account, the situation becomes much more serious.

Table 4: Demirbank Gap Analysis (Including Repo) (billion TL)

	Demad Deposit	Upto 1 month	1-3 months	3 months - 1 year	1-5 years	5+ years	Undelivered	Total
Assets	118.023	199.328	197.619	884.599	1.340.552	0	422.842	3.162.963
Liabilities	196.322	1.945.426	355.700	226.501	59.656	0	379.358	3.162.963
Gap	-78.299	-1.746.098	-158.081	658.098	1.280.896	0	43.484	0
Cumulative Gap	-78.299	-1.824.397	-1.982.478	-1.324.380	-43.484	-43.484	0	
Repo Security								
Assets	0	0	0	2.206.540	0	0	0	2.206.540
Liabilities	0	2.206.540	0	0	0	0	0	2.206.540
Adjusted								
Assets	118.023	199.328	197.619	3.091.139	1.340.552	0	422.842	5.369.503
Liabilities	196.322	4.151.966	355.700	226.501	59.656	0	379.358	5.369.503
Adjusted Gap	-78.299	-3.952.638	-158.081	2.864.638	1.280.896	0	43.484	0
Adjusted Cumulative Gap	-78.299	-4.030.937	-4.189.018	-1.324.380	-43.484	-43.484	0	

Source: ISE

After repo transactions are added to above table, cumulative gap amount in 1 month maturity exceeds 4 quadrillion TL. In other words, Demirbank rolls over its liabilities 80% by 1 month maturity deposits. Demirbank was acting with foresight that interest rates will continue declining. Top management, thus, purchased excessive amounts of securities exceeding their capabilities and tended to fund those securities by deposits having maturity less than 1 month and repo having maturity of less than 1 week. Sudden dramatic increase in interest rates and liquidity tension in markets prepared the end of Demirbank. Financial depth in secondary bond markets was very low and it caused liquidity crisis much more dramatic. Consequently, Demirbank had to find resources to fund with enormous costs. Finally, Savings Deposit Insurance Fund confiscated Demirbank.

Pre-crisis real results of the bank was different from officially announced results. Although above mentioned figures are depending on official results, it is commonly accepted that the banking industry entered crisis with 20 billion USD open positions. Legal room for falsifications and lack of efficient monitoring and auditing allowed banks to carry open positions exceeding too much their capacity. The main problem of Demirbank was disregarding risk management policies with excessive profit expectations. Demirbank is a good example of bankruptcy due to market risks. Despite the fact that HSBC had bid 1.5 billion USD one year ago, Demirbank was sold for a price of 330 million USD again to HSBC.

As Beck, Demirgüç-Kunt and Levine (2003;13) stated that the supervisory power view is based on the idea that highlighting official oversight of banks (increasing Supervisory Power) will enable the improvement of banking management and increase the ways the bank invest in alternatives based on sound risk-return tradeoffs, so that Supervisory Power will be negatively associated with Bank Corruption. However, before 2001 crisis, there was not a fully authorized institution responsible for banking supervision and regulation. This activity was being realized by Treasury and Central Bank. Bank owners were able to find room to invest in risky instruments with the expectation of more profits. Lack of effective supervision caused Turkish banks, especially Demirbank less risk aware. Excessively undertaken risks were realized by the liquidity tightness in the market and Demirbank faced too high levels of losses.

According to Stout (1995;53) excessive risk takings of banks cause serious problems in turbulent. Banks purchased large amounts of risky securities by funding with short term deposits start to face troubles when the booming period of economies end. Demirbank purchased long term assets, however, in Turkish banking industry, deposits had a maturity of less than a month. Liquidity problem occurred at the end of 2000 caused many banks, especially Demirbank, by being ready with unrealistic rates. So, just in a few months, Demirbank went into bankruptcy.

As Baltensperger (1990) argued that governmental authorities may prevent ex post interventions, instead offer protection for the banking system as a whole, including depositors and credit users to eliminate any trouble in balance bank insolvency. Governmental authorities should prefer monitoring the amount of risks undertaken without intervening the bank management, decrease any risk of liquidation. However, before 2001 crisis, there was no efficiently operating regulative authority in the system. Government could not effectively controlled the amount of risks in the banking system. Therefore, Demirbank undertook high levels of risks with the hope to make more profit. Consequently, the root went to bankruptcy and sale of the bank.

CONCLUSION

All these cases were a result of lack of an efficient regulation authority pre-crisis era. Turkey was not too much aware of and paying attention to corporate governance principles. Since banking system is the locomotive of the overall economy, it needs to fully and efficiently monitored and regulated. Because, this industry is the softest area for corruption. Since most economic crisis in the near past, unregulated banking system is the leading cause.

Demirbank was the victim of excessive risk takings without risk management because of high profit expectations of bank owners and directors. Demirbank preferred funding long term securities by short term deposits. At the end of 2000, there occurred a liquidity problem. Funding become a hard issue with rallying interest rates.

Finally, it can be stated that Imarbank scandal was a worse example to other financial scandals of the world, subject to international literature. Although it was argued by some that Uzan group was subjected to a political lynch, the importance of the corruption is apparent. SDIF authorities claim their dazedness by each property they find belonging to Uzan group and confiscate. All these events are good examples to the lack of corporate governance enforcement. After those banking crises not only Turkish government but also banking sector noticed the importance of corporate governance and engaged in some regulations related to banking sector. Among those regulations, establishment of transparency system is the most critical one to overcome the challenges of BOD and BOE structures, and opaque structure that constitute the basis of the banking crises.

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CROSS-CULTURAL STRATEGIC MARKETING, APPROACH TO ANALYZE THE HIGH-CONTEXT AND LOW-CONTEXT CULTURES (EDWARD HALL MODEL) IN WEB DEVELOPMENT

**Ehsan Fakkar
Farhad Siasar Djahantighi
Mohammad Haghghi
Seyed abolghasem Mira**

Tehran University, Iran.

ABSTRACT

Today's with increased usage of Internet in the World as a tool for displaying information with different cultures. The marketing is considered as a tool for understanding and communication between cultures to identify how to distribute goods and services to foreign markets. Therefore, High and Low cultures identification, to perform strategic decision is so important and this research has been focused on that. In this research, the findings of anthropologist Edward Hall has been chosen as a base element in web sites development because every country and culture needs to be studied in the differences in cultures of High and Low societies. Results show that for designing an ecommerce websites for multi cultures, translate texts is not enough whereas use the correct variables (for instance images and Themes) for High and Low cultures in web sites has more influence to attract the audience. As a result these variables must play a key role in strategic decision to promote an e-commerce in the internet.

KEYWORDS: Cross-Cultural Strategic Marketing; Web Development; Edward Hall Model

INTRODUCTION

Today's with increased usage of Internet in the World as a tool for displaying information with different cultures. The marketing is considered as a tool for understanding and communication between cultures to identify how to distribute goods and services to foreign markets. Therefore, High and Low cultures identification, to perform strategic decision is so important and this research has been paid to it. In this research, the findings of anthropologist Edward Hall has been chosen as a base element in web sites development because every country and culture needs to be study in the differences in cultures of High and Low societies. Results show that for designing an ecommerce websites for multi cultures, translate texts is not enough whereas use the correct variables (for instance images and Themes) for High and Low cultures in web sites has more influence to attract the audience. As a result these variables must play key role in strategic decision to promote an e-commerce in the internet.

LITERATURE REVIEW

With increased globalization of the world economies, for most enterprises, market opportunities seem to be endless these days. This in turn, of course, causes heightened competition among the players in order to achieve better performance. Consequently, departing from the traditional commercial strategies and tactics, innovative managers are looking for unique ways to compete more effectively on a local, regional and global basis. Although there is increased research interest in culturally preferred design elements, there are few studies that systematically investigate such preferences across cultures. This is an important area for research, if, as Robbins and Stylianou (2003) suggest, "Developing an effective multinational Internet presence requires designing Web sites that operate in a diverse multicultural environment. Globally accessible Web sites likewise have the

potential to inform, and include, various nations around the world in large scale information sharing in order to reduce any exclusion effects”.

There are many ways to think about culture. Dutch management professor Geert Hofstede refers to culture as the “software of the mind” and argues that it provides a guide for humans on how to think and behave; it is a problem-solving tool (Greet Hofstede 2001). Anthropologist and business consultant Edward hall provides a definition even more relevant to international marketing managers: “the people we were advising kept bumping their heads against an invisible barrier... we knew that what they were up against was a completely different way of organizing life, of thinking, and of conceiving the underlying assumptions about the family and the state the economic system, and even man himself.” (Edward T. Hall, 1959). The salient points in hall’s comment are that culture differences are often invisible and that marketers who ignore them often hurt both their companies and careers. Finally, james day hodgson, former U.S. ambassador to Japan, describes culture as a “thicket” (Jams D. Hogson, Yoshihiro Sano, and John L. Graham, 2008). This last metaphor holds hope for struggling international marketers. According to the ambassador thickets are tough to get through, but effort and patience often led to successes. On the basis of decades of anthropological fieldwork, Hall places two cultures along a high context / low context continuum (Edward T. Hall, August 1976). Communication in high context culture depends heavily on the contextual or nonverbal aspects of communication, whereas the low context culture depends more on explicit. Communications international connections may be unsuccessful for so many reasons. For instance a message might not transfer because of media insufficiency, a message might be received by the audience but in different cultural interpretations they are not understood. Even message may seems to understand but does not impact, because marketing has not identified a target market needs and demands (Jennifer Aaker, 2000)

This paper tends to discover the effective factors for strategic decision in website designs for high-context and low-context cultures. So, identification of what factors, from customer’s perspective, are important for website designers and studying some attributes of cultures for decision in web development is the main objectives of this research. The study was conducted as a cross-cultural, qualitative analysis of websites from countries categorized among either high and low cultures. The differences between the two website samples were explored and sought to be explained in terms of hall's dimensions.

High and low context cultural factors

Edward T. Hall anthropologist categorizes cultures as being either high or low context, depending on the degree to which meaning comes from the settings or from the words being exchanged (Edward T. Hall, 1976). Hall defines context as “the information that surrounds an event; it is inextricably bound up with the meaning of the event” (Edward T. Hall, 1990). A high context communication is one in which most of the information is already in the person, while very little is the coded, explicitly transmitted part of the message. A low context communication is just the opposite, and the mass of the information is vested in the explicit code (Edward T. Hall, 1976). In high context cultures people use a variety of channels to deliver meaning and these channels involve many non-verbal factors such as gestures, space and silence, even the dress and appearance can help. In low context cultures, words and explicit expressions are the only authentic message to deliver meaning. Usually the recipient will ignore any other messages. So when people interact with others, they need detailed background information. (Figure 1)

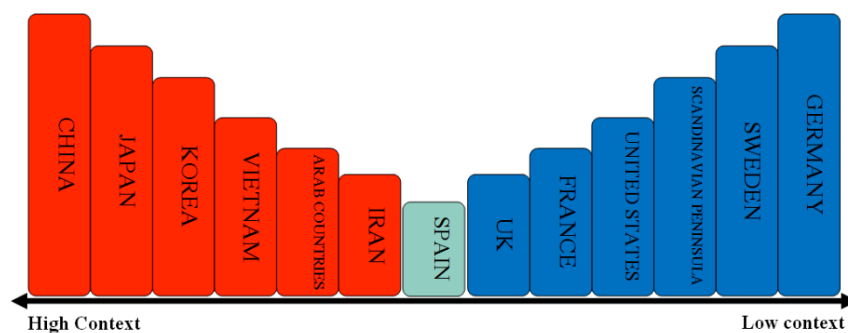


Figure 1 High and Low Context by culture

HYPOTHESES

This research includes four hypotheses:

H1: percent of using the famous people's figures in a high context cultural websites is higher than the low context cultures.

H2: high context cultures tend to post more images than low context cultures in their web sites.

H3: selected images website reflects the high context cultural features such as high context cultural value of family values

H4: web site structure in high context is deferent but low context cultures websites have unique page layout and colors.

METHODS

This research's methodology from the objective point of view is applicative research and descriptive analytic, from the methodology point of view. The present research is based on the analytical model of visual communication on websites presented by Lisbeth Thorlacius (Thorlacius, Lisbeth, 2002). This model in turn is shaped by Roman Jacobson's verbal communication model, and thus provides a systematic and comprehensive approach for identifying the various communicative functions present on websites. To prevent reduction of samples mass, in totality 70 questionnaires reproduced and then distributed. The population constitutes from individuals who are expert in websites design and has knowledge of marketing in 2010. Applied sampling method is sampling from accessible samples. Finally, after evaluating and removing inappropriate questionnaires, 45 one of questionnaires have been applied. Each one of these questionnaires has 22 indexes designated based on a five-point Likert scale spectrum. To determine continuity of questionnaires, the Cronbach alpha has been used. For all questions, the measured alpha was 0.81. Finally, to test hypotheses about the difference between high and low Web sites of cultural cross-tabulation tables for each of the cases under the categories of cultural and cultural characteristics of high and low context cultures were analyzed for differences between cultures using the Binominal Test and Wilcoxon Test.

APPLIED HYPOTHESIS IN THE RESEARCH METHODS

Community relations: Presence or absence of community policy, giving back to community, social responsibility policy. (Cheng, 1994; Lin, 2001; Singh et al., 2003; Singh and Matsuo, 2004; Zahedi et al., 2001)

Symbols and Images: Flags, pictures of historic monuments, pictures reflecting uniqueness of the country, country-specific symbols in form of icons, and indexes.

Family Theme: Pictures of family, pictures of teams of employees, mention of employee teams and emphasis on team and collective work responsibility in vision statement or elsewhere on the Web site, and emphasis on customers as a family. (Cheng and Schweitzer, 1996; Cutler et al., 1995; Singh et al., 2003; Singh and Matsuo, 2004)

Pictures of specific individuals: Displaying photos of products which are using by specific and well-known individuals. (Cheng and Schweitzer, 1996; De Mooij, 1998; Robbins and Stylianou, 2003; Singh et al., 2003; Singh and Baack, 2004; Zahedi et al., 2001)

The hypothesis applied for this variable is:

H1: percent of using the famous people's figures in a high context cultural websites is higher than the low context cultures.

Motions Images: using motions Images in the websites.

Graphic oriented: High levels of use of images, pictures, streaming video, etc. The website should be visually noticeable. (Albers-Miller and Gelb, 1996; Cho et al., 1999; Cheng and Schweitzer, 1996; Lin, 1993; Mueller, 1987, 1992; Zandpour et al., 1994)

Messages and information transfer: How to transfer messages through pictures and images and texts either. (More rational and more understandable)

Quality of Pictures: Links promote an exploratory approach to navigation on the website; process-oriented or clear and redundant cues in connection with navigation on a website; goal-oriented focus on beauty, and emphasis on pleasing images, format, design, etc. (Albers-Miller and Gelb, 1996; Cho et al., 1999; Cheng and Schweitzer, 1996; Mueller, 1987, 1992; Zandpour et al., 1994)

In terms of this, we suggested this hypothesis:

H2: high context cultures tend to post more images than low context cultures in their web site.

Tradition theme: Considering the history and native culture, emphasis on a company's relationship with a particular nation, emphasis on respect. (Albers-Miller, 1996; Cheng and Schweitzer, 1996; Mueller, 1987; Singh and Baack, 2004; Singh et al., 2003)

Realism Theme: Less fantasy and imagery on the Web site, pointed information, lack of nature and oneness with nature appeal, appeals emphasizing product attributes. (Albers-Miller and Gelb, 1996; Zahedi et al., 2001)

Use of Superlatives: Use of superlative words and sentences. such as: "We are the number one," "The leader," "World's largest."

Family values, national pride: using family pictures and show people use symbols and signs of dominant cultural values in different types Such as voice, image, text, etc.

Clear Gender Roles: Separate pages for men and women, depiction of women in nurturance roles, depiction of women in positions as telephone operators, models, wives, and mothers, depiction of men as macho, men doing manual work, the strength of men, men as powerful personalities. (Milner and Collins, 2000)

Applied hypothesis for this variable is:

H3: selected images website reflects the high context cultural features such as high context cultural value of family values

Hierarchy information: Information about the ranks of company people, information about organizational chart, information about country managers or country-based important people. (De Mooij, 1998; Robbins and Stylianou, 2003; Singh et al., 2003; Zahedi et al., 2001)

Customize web pages: Customize Web pages according to user's needs and comment. Coordination structure and content: Home Pages and other Web design have similar color, pattern and have similar structure.

Guided Navigation: such as Site maps, well-displayed links, links in form of pictures or buttons, forward, backward, up and down navigation buttons. (Singh, Zhao, and Hu, 2003)

Followed hypothesis is presented for studying this issue:

H4: web site structure in high context is deferent but low context cultures websites have unique page layout and colors.

Hypothesizes which discussed above are used to study the High-Context and Low-Context Cultures in web site development that are so important in strategic decisions about how to create an e-commerce web site for each of them. Theses Hypothesizes which is going to be examined, presented in Table 1.

Hypothesis	Parameter	Hypothesis	Parameter
H1	Community relations Pictures of specific individuals Family Theme Images and Symbols	H3	Tradition theme Realism Theme Family values, national pride Use of Superlatives Clear Gender Roles
H2	Motions Images Quality of Pictures Graphic oriented Messages and information transfer	H4	Hierarchy information Customize web pages Coordination structure and content Guided Navigation

Table 1 Hypothesis Parameters

Testing Model and Research Hypotheses

The suggested model evaluated, using Binominal Test and Wilcoxon Test.

Binominal Test has been used to indicate if hypothesis are playing a rule or not. In order to accept or reject assumptions and parameters of this study, those who wanted to fill the questionnaire were requested to accept or reject the assumptions and parameters based on their experiences and backgrounds. Following Hypothesis indices has been used for this test:

$$\begin{cases} H_0 : P < 50\% & \text{Does not play role} \\ H_1 : P > 50\% & \text{Play role} \end{cases}$$

The results have been shown in Table 2. As you can see here, all practice indices confirm the model.

Binomial Test									
	Category	Observed Prop.		Category	Observed Prop.		Category	Observed Prop.	
b1	yes	0.87	b8	yes	0.87	b16	yes	0.8	
	no	0.13		no	0.13		no	0.2	
b2	yes	1	b9	yes	1	b17	yes	0.73	
	no			no			no	0.27	
b3	yes	0.97	b10	yes	0.83	b18	yes	0.73	
	no	0.03		no	0.17		no	0.27	
b4	yes	0.67	b11	yes	0.93	b19	no	0.13	
	no	0.33		no	0.07		yes	0.87	
b5	yes	0.93	b12	yes	0.73	b20	yes	0.93	
	no	0.07		no	0.27		no	0.07	
b6	yes	0.97	b13	yes	0.9	b21	no	0.03	
	no	0.03		no	0.1		yes	0.97	
b7	yes	0.73	b14	yes	0.77	b22	yes	0.97	
	no	0.27		no	0.23		no	0.03	
			b15	yes	0.73				
				no	0.27				

Table 2: Binominal Test Results

In addition, for study Web sites features in High-Context and Low-Context Cultures (based on Edward Hall's model) a number of international companies website's address specified and classified into High-Context and Low-Context Cultures. This information's were given to individuals based on their observations on Web sites to insert information requested in the questionnaire related to each act. Wilcoxon Test has been used with following indices:

$$\begin{cases} H_0 : \mu_d = 0 & \text{Does not play role} \\ H_1 : \mu_d \neq 0 & \text{Play role} \end{cases}$$

Test Statistics ^d									
	m1 - s1	m2 - s2	m3 - s3	m4 - s4	m5 - s5	m6 - s6	m7 - s7	m8 - s8	m9 - s9
Z	-0.715 ^a	-0.292 ^b	-2.798 ^b	-1.483 ^a	-2.320 ^a	-0.087 ^b	-2.321 ^a	-2.601 ^a	3.152 ^a
Asymp. Sig. (2-tailed)	0.475	0.771	0.005	0.138	0.02	0.931	0.02	0.009	0.002
	m10 - s10	m11 - s11	m12 - s12	m13 - s13	m14 - s14	m15 - s15	m16 - s16	m17 - s17	
Z	-1.967 ^b	-2.434 ^a	-0.146 ^a	-3.949 ^a	-0.721 ^b	-2.387 ^b	-2.029 ^b	-0.758 ^b	
Asymp. Sig. (2-tailed)	0.049	0.015	0.884	0	0.471	0.017	0.042	0.449	

Table 3: Wilcoxon Test Results

Information's in Table 3 explicit that Sig values in most of cases are more than 5 percent. As a result H0 is not confirmed and significant differences between the two communities are considered. Base on the information's Sig value in (m2-s2, m6-s6 and m14-s14) are more than 5 percent, It shows that both surface and deep societies have differences in the use of any of the above parameters and they do not use any of the parameters same as each other. In addition, this test revealed clear differences between the parameters apply in designing website for both societies. Resulted outputs from Wilcoxon Test illustrated in Table 4.

Hypothesis	No	Parameter	Wilcoxon Test Result	
			Low context (s)	High context (m)
H1	1	Community relations	√	X
	2	Pictures of specific individuals	√	√
	3	Images and Symbols	X	√
	4	Family Theme	√	X
H2	5	Motions Images	√	X
	6	Quality of Pictures	√	X
	7	Graphic oriented	√	X
	8	Messages and information transfer	√	X
H3	9	Tradition theme	√	X
	10	Realism Theme	X	√
	11	Family values, national pride	√	X
	12	Use of Superlatives	√	X
	13	Clear Gender Roles	√	X
H4	14	Hierarchy information	√	X
	15	Customize web pages	√	X
	16	Coordination structure and content	X	√
	17	Guided Navigation	X	√

Table 4: Wilcoxon Test results in High-Context and Low-Context Cultures

Based on observations, test results, features and properties of low and high context cultures and also differences in the use of parameters, It was determined that in order to achieve the desired goals and objectives, using each parameter used in this research will be effective. The results indicate that all the assumptions of this research on high context cultural communities have been accepted

SUGGESTIONS

We suggest that when someone is making decision about creating any kind of web sites, especially an E-commerce site, the decision maker must pay attention to the following items:

- Use social values such as well-known figures to show images in High-Context communities to create the desired effect.
- Since high context cultures tend to post more images than low context cultures in their web site. Images of goods and services with specific persons, who are using them, make trust and persuade costumers to accept them in both High-Context and Low-Context Cultures.
- Using images reflects the high context cultural features in the High-Context community's websites can effect audience and bring their attention to it.
- Web site structure in high context is deferent but low context cultures websites have unique page layout and colors.

FINDINGS & CONCLUSION

As a result, it is clear that only the translation language web site to target the local market marketing purposes is not enough. Translation may lead to major cultural errors that cause this lack of cultural compatibility of business failures in international marketing. Providing a framework for cultural analysis website this research hopes to help marketers and web designers to create Web sites for international and help them to prevent some common mistakes in the relationship between cultural lead. The findings of this study indicated that the internet is not a neutral culture media. But significant differences in drawing the local cultural values are on the website. In addition, this research as a criterion for future studies attempt to measure cultural values in international marketing environment. The proposed framework based on cultural values can be useful website design and development and applied to marketing strategies in international field, which can cause increased use of websites and help companies in global. The results have been shown in Table 4 show that the understanding of cultural content on the web site can declare social and cultural characteristics of a particular culture. Therefore Strategic decision makers must pay attention to the differences between cultures and for implement these parameters they must be able to identify and incorporate cultural aspects and values. If they aim to create and establish a website, it should not be based on their personal tastes and views. It is strongly recommended that results from this research have been applied in websites and based on parameters of each cultural, websites must be designed and created to act more effectively for their purposes and goals in the selected community. Proposed framework in this research can lead marketers and Web designers to study detailed features and values of different cultures and make a good decision for creating or designing international webs. The results explicit and emphasis on this message that web designers should not only be able to recognize and incorporate cultural dimensions and values, but they need to study specific elements of each culture to use symbols and language of specific culture.

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CHANGING CORPORATE CULTURE TO IMPROVE BUSINESS PERFORMANCE: CASE OF THE AUSTRALIAN AUTOMOBILE INDUSTRY

Clark Li Ke You, Max Coulthard, Sonja Petrovic-Lazarevic,
Monash University, Australia

ABSTRACT

Literature suggests that by developing distinctive cultural traits of involvement, mission, consistency and adaptability, firms can achieve effective business performance. Whilst this topic has been researched worldwide, little research has been done in Australia. This paper helps fill this gap in the literature using the automobile industry. The research findings suggest that a link between corporate cultural traits and business performance exists in the Australian automobile industry. Compared to other cultural traits, adaptability has the greatest influence over business performance. Of the business performance measures assessed, both non-financial and financial, customer satisfaction as a non-financial measure was considered the most important one. In comparing cultural traits and business performance, consistency and mission were found to be important predictors of profitability; and adaptability and mission important predictors of sales growth.

Keywords: *cultural traits, adaptability, consistency, customer satisfaction*

INTRODUCTION

This paper looks at the influence of corporate cultural traits on business performance in the Australian automobile industry undergoing rapid change. The aim is to identify traits that may enhance business performance and lead to a sustainable competitive advantage.

For decades, researchers have assessed the influence of corporate culture on the management style within organisations and how this affects employee performance (Lee & Yu, 2004). For example, Wirtenberg *et al.*, (2007) argue that the key to sustained business performance is using the knowledge, expertise, and commitment of employee. For Hsu *et al.*, (2009) leadership style, organisational culture, and especially organisational learning have an impact on organisational performance. Denison *et al.*, (2003) and Kasila and Poskiparta (2004) go further suggesting that corporate culture may be one of the most powerful tools to be used to improve business performance. Although few studies have tested the value of corporate cultural traits during periods of rapid change, Singh (2006) identified that organisations with a highly adaptive corporate culture can actively respond in a changing environment and capture market opportunities.

Corporate culture can be characterised through employees' values, beliefs and their behaviour within the organisation (Petrovic-Lazarevic, 2006; Singh, 2006). This study used the corporate cultural traits of *consistency, mission, involvement, and adaptability*, developed by Denison *et al.* (2003). Accordingly, cultural traits are defined as follows:

Consistency characterises the organisation's core values; methods used to achieve agreement; and the coordination and integration systems that hold the company together (Denison *et al.*, 2003). Cultural *consistency* improves business performance by creating coordination from top level management to first line employees (Mavondo & Farrell, 2003).

Mission describes the strategic direction and intent an organisation is aiming to achieve; its goals and objectives; and its vision. Hence, employees who have a clear *mission* in their mind can significantly improve their own productivity (Buckingham, 2005).

Involvement covers the level of staff empowerment in decision making; its team orientation; and the capability development undertaken by the organisations. It is used to measure the company's ability to drive commitment and develop ownership with employees (Denison *et al.*, 2003; Rotenberry & Moberg, 2007).

Adaptability measures the company's ability to read and scan the business environment and to respond to change (Denison *et al.*, 2003). Organisations that have an adaptable culture tend to both actively and openly receive and interpret opportunities and threats from the external environment, responding to these external signals appropriately (Pennington, 2003). An adaptive culture encourages and supports employees to improve their ability by learning from day-to-day tasks (Denison *et al.*, 2003).

Some authors focus on financial measures of business performance (Allen & Helms, 2002). In this respect, financial indicators usually include profit, efficiency trend, sales trend (Kloot, 1999), return on investment (Kennerley & Neely, 2003) and market share (Bloodgood & Katz, 2004).

Concept of corporate sustainability, comprising company's activities that demonstrate inclusion of social and environmental concern in business operations and in interactions with stakeholders (van Marrewijk & Werre, 2003), is recently introduced as a measure of sustainable business performance. Findings by Hubbard (2009), Johnson (2009), Robert (2000), and Scholten (2009) suggest that corporate sustainability may assist organisations in the long run as it has a positive impact on corporate performance. One key sustainable non-financial indicator considered important is customer satisfaction (Briffaut & Saccone, 2002; Vukmir, 2006).

The Australian automobile industry was chosen for this study because it is a key sector in the Australian economy. Exports now account for around 40 percent of domestic motor vehicle production. The industry's domestic value added component total is over AUD \$5.6 billion and 5.6 percent of the total Australian manufacturing sector (Department of Foreign Affairs and Trade, 2008). Since free trade agreements between Australia and other nations have been signed, the Australian automobile industry is gradually moving towards a more open trading environment with low levels of government protection. This new competitive environment has led to significant job shedding within the industry, in particular within the automotive component manufacturer and retail sector.

To minimise further job losses, maintain viability, and above all help the Australian economy to overcome the present global economic crisis, the Australian automobile industry should improve its business performance. One of the ways in which this may be achieved is through developing a performance oriented corporate culture. Dealing with this matter, this paper is organised as follows: after the methodology, we present and discuss the project results, followed by concluding remarks and future research interests.

METHODOLOGY

A multi-method study based on quantitative research was chosen for better understanding of data and an in depth and valid analysis of research findings (Creswell, 2003) relevant to the automotive industry in Australia. This paper focuses on the quantitative results of a questionnaire used to survey both manufacturers and retailers in this industry.

We have used the Australian Bureau of Statistics (2002) measure for business size, by employees: small business 1-19; medium business 20-199; and large business 200 plus employees. A quantitative approach has been applied based on the *Denison Organisational Culture Survey* (Denison & Neale, 1996). The survey measured twelve indices of organisational culture (See Table 1) using five questions for each index, a total of 60 questions. For all items a five-point Likert scale with response categories ranging from strongly disagree to strongly agree was applied. The twelve indices were used to measure four main cultural traits: *involvement*, *consistency*, *adaptability* and *mission*. Table 1 outlines these four cultural traits.

The survey also sought senior executive's perception of organisational performance on the following variables: *net profit*, *customer satisfaction*, *market share*, *return on investment*, *efficiency trend*, and *sales trend*. Chief executive officers and/or general managers were chosen as the preferred research subjects to complete the questionnaire as they were seen to be best placed to comment on the organisation's corporate culture. The interviewees were further divided into two groups: high performing organisations versus low performing organisations; the criterion used is based on the summated mean of the six performance measures used (See Table 2). Thus, high performing organisations have summated mean of the six performance measures used in this study above 22.51, while low performing organisations have summated mean below 22.51 This process

helped identify key differences in cultural traits and their potential influence on organisational performance. It also allowed differences between small to medium organisations and large organisations to be assessed.

The selection of the organisations, to create a mailing list, was based on three main sources: Membership list of the Federation of Automotive Products Manufacturers; Australian Automotive Aftermarket Association – Exporters Directory; and Registered Automotive Retailers from the telephone directory-Yellow Pages. 250

Table 1. Four Cultural Traits and Indices of Organisational Culture

Cultural Trait		Indices of Organisational Culture		
1	Involvement	Empowerment	Team Orientation	Capability Development
2	Consistency	Core Value	Agreement	Coordination and Integration
3	Adaptability	Creating Change	Customer Focus	Organisational Learning
4	Mission	Strategic direction and Intent	Goals and Objectives	Vision

organisations were selected in total for this project. Eighty useful questionnaires were returned and analysed using SPSS for Windows 15.0. All measures were aggregated at the organisational level.

Table 2. Breakdown of Surveyed Organisations Based on Employee Size and Performance

Performance	Small to Medium organisations	Large Organisations
Hi	42	0
Low	31	7
Total	73	7

LIMITATIONS

In our research, we used self-report survey data that may be affected by leniency or inflated responses. If the actual performance measures were available in the public domain as it was not the case, we could have achieved greater accuracy in our findings. Further, we did not use multiple responses within each organisation, thus we could not reduce perceptual bias. Finally, we collected data at a single point in time that does not allow for changes in perceptions and attitudes over time. A longitudinal study on organisational culture would be more appropriate.

DISCUSSION OF RESULTS

A survey response rate of 25 percent or more is considered as satisfactory (Sellitto, 2006); the survey response rate for this project was 32 percent. Based on the demographic data, three groups were identified: manufacturer (51 percent), retailer (46 percent) and others (three percent). Of these respondents, 34 percent of the organisations had been operating less than 10 years and 66 percent over 10 years. The majority of organisations were subsidiaries of overseas organisations (48.5 percent), another 44 percent were privately owned domestic organisations, and 7.5 percent publicly owned domestic organisations. About 54 percent of respondents were in general management position, while the rest of respondents were either chief executives officers (14 percent) or lower level managers and specialists (32 percent).

Reliability test results measured by Cronbach's alpha are presented in Table 3.

According to Liu and Zumbo (2007), a Cronbach's alpha of 0.70 and above is an acceptable reliability coefficient. Hence, as all the summated measures used to assess business performance and cultural traits in this study were above 0.70, they were treated as reliable.

Table 3. Cronbach's Alpha Analysis for Major Variables

	Cronbach's alpha
Business performance measures	0.83
Involvement	0.91
Consistency	0.89
Adaptability	0.88
Mission	0.93

Business Performance

Statistical analysis of the questionnaires identified that all four cultural traits influence business performance, confirming the findings of Denison *et al.* (2003) and Kasila and Poskiparta (2004).

The first step undertaken was to assess respondent's opinions on the impact of cultural traits on business performance. Although respondents overall considered all traits important, there were some differences with *consistency* (mean 3.99) scoring the highest, while *adaptability* (mean 3.92) scoring the lowest of corporate cultural traits (See Table 4).

Table 4. Respondents' Opinions as to the Importance of Corporate Cultural Traits to Business Performance

		Involvement	Consistency	Adaptability	Mission
N	Valid	80	80	80	80
	Missing	0	0	0	0
	Mean	3.98	3.99	3.92	3.97

Overall, respondents considered all performance measures important, though there were different values placed on each measure (See Table 5). For example, some respondents felt traditional financial measures

Table 5. Business Performance Measures

	Mean	SD
Financial measures		
Net Profit	3.68	.839
Customer Satisfaction	3.86	.707
Market Share	3.75	.907
Return on Investment	3.68	.938
Efficiency Trend	3.79	.758
Sales Trend	3.76	.903
Non-financial measures		
Customer Satisfaction	3.86	.707

were not as important as the non-financial measure of *customer satisfaction*. Respondents ranked *net profit* (mean= 3.68) and *return on investment* (mean =3.68) the lowest, followed by, in ascending order, *market share* (mean 3.75) *sales trend* (mean 3.76) *efficiency trend* (mean 3.79) and *customer satisfaction* the highest (mean 3.86). This suggests a belief that customer satisfaction is a precursor to achieving financial objectives.

We further studied strength of the relationship between the four cultural traits and business performance in Australian automobile organisations using correlation analysis (See Table 6). This confirmed the opinions of respondents that all four cultural traits have a strong relationship with business performance as all achieved $r > 0.5$ level. *Adaptability* had the strongest relationship with business performance ($r=0.573$); followed by *involvement* ($r=0.505$), *mission* ($r=0.510$). The regression analysis identified that those traits that really improve performance are the exact opposite to the traits respondents perceive as important.

Table 6. Correlation Analysis between Four Cultural Traits and Business Performance

Variables	1	2	3	4
1 Business Performance				
2 Involvement	.505**			
3 Consistency	.545**	.761**		
4 Adaptability	.573**	.720**	.721**	
5 Mission	.541**	.779**	.817**	.757**

** $p < .01$ (2-tailed)

A breakdown of the components of each of the cultural traits identified that the key variables with the greatest relationship with business performance were *creating change* ($r=0.652$), *team orientation* ($r=0.532$), *strategic direction and intent* ($r=0.525$), and *core value* ($r=0.503$) (See Table 7).

Table 7. Correlation Analysis between all Cultural Trait Indices and Business Performance

Cultural Traits	Variables	1	2	3	4	5	6	7	8	9	10	11	12
	1 Business Performance												
Involvement	2 Empowerment	0.497**											
	3 Team Orientation	0.532**	0.786**										
	4 Capability Development	0.276*	0.430**	0.512**									
Consistency	5 Core Value	0.503**	0.574**	0.635**	0.510**								
	6 Agreement	0.488**	0.610**	0.634**	0.328**	0.631**							
	7 Coordination and Integration	0.309**	0.569**	0.579**	0.152	0.508**	0.487**						
Adaptability	8 Creating Change	0.652**	0.673**	0.647**	0.353**	0.538**	0.555**	0.513**					
	9 Customer Focus	0.332**	0.456**	0.501**	0.162	0.484**	0.506**	0.570**	0.407**				
	10 Organisational Learning	0.312**	0.581**	0.632**	0.329**	0.491**	0.378**	0.506**	0.476**	0.468**			
Mission	11 Strategic Direction & Intent	0.525**	0.576**	0.652**	0.389**	0.658**	0.540**	0.619**	0.613**	0.486**	0.497**		
	12 Goals and Objectives	0.471**	0.654**	0.681**	0.429**	0.696**	0.603**	0.581**	0.584**	0.537**	0.478**	0.715**	
	13 Vision	0.294*	0.559**	0.591**	0.425**	0.573**	0.397**	0.497**	0.463**	0.343**	0.567**	0.517**	0.628**

** $P < .01$ (2-tailed)

The findings suggest that automotive organisations in turbulent times may increase their organisational performance with more attention to *adaptability* attributes (being customer focused, building organisational learning, and creating change). This may be more appropriate than focusing on *consistency* attributes (enhancing greater coordination and control or building and refining existing systems), which appear more attuned to the needs of organisations operating in a stable environment.

Multiple regression was then used to indicate how much of the variance in *business performance* can be explained by each cultural trait. Given the sample size is smaller than normally desirable for multiple regression, the results need to be reviewed with caution, so the adjusted R Square was used as it is a more accurate estimate of the influence of each trait on business performance (Anderson *et al*, 1999). Results showed that 44 percent of business performance variations could be explained by *creating change* (a subcomponent of *adaptability*) (See Table 8). The sub-components of *business performance* were broken down further to help identify which cultural traits explained their variations. This analysis identified that *creating change* (subcomponent of *adaptability*) was a major influence in all areas of *business performance* explaining 18 percent of *net profit* variations, 24 percent of *market share* variations, and 23 percent of *sales trends*. It was also a major factor in explaining *return on investment*, *efficiency trend*, and *customer satisfaction* variations (See Table 8).

When looking at the results of high performing organisations versus low performing organisations, one of the key findings was that all large organisations surveyed could be categorised as low performing organisations.

Table 8. Summary of Relationship between Business Performance and Cultural Traits

P Value	R Square	Creating Change
Business Performance	.44	0
Net Profit	.18	0
Customer Satisfaction	.31	.003
Market Share	.24	0
Return on Investment	.35	.003
Efficiency trend	.38	.011
Sales Trend	.23	0

The following paragraphs further outline these findings and potential implications in achieving high performance (See Table 7) for a detailed summary of the mean scores for all cultural traits and their subcomponents). It should be noted that the mean provided immediately after each trait subcomponent heading refers to the mean for the eighty organisations in this survey.

Consistency Trait

Respondents' opinions that *consistency* is the most important cultural trait, suggests their belief that a key to business success is to develop and maintain core values, have clear methods to reach agreement on issues, and maintain clear coordination and integration systems. Yet the study identified that this trait is least likely to lead to increased performance. Closer analysis of the sub-components of this trait revealed that high performing small to medium firms did things differently to low performing firms.

When it comes to *core values* (See Table 9), we found that small to medium high performing firms were more likely to demonstrate core values through having leaders and managers who promote their core values such as "practicing what they preach"; using a distinct management style and setting a clear code of practice, whilst conducting business in an ethical manner.

High performing small to medium firms were more likely to work hard to achieve win-win solutions when disagreements occurred; tended to reach *agreement* by consensus; and generally had clear *agreement* on the right and wrong way to do things, all within a strong culture. Interestingly, we found that low-performing small to medium firms were less likely to dispute key issues, suggesting top management decisions are perhaps not open for debate and criticism.

Related to *coordination and integration*, we found that high performing small to medium firms were more likely to have a consistent and predictable approach to business. They easily coordinate projects across the organisation. Such firms have the employees who feel comfortable working in cross-functional teams, sharing common perspective, and ensuring there is good alignment of goals across all areas of the business.

Adaptability Trait

The comparatively lower score of *adaptability* in the overall results indicates that the Australian automobile industry may not yet recognise the importance of adapting to environmental change in order to improve its business performance (Pennington, 2003). *Adaptability* is often considered as a key strength of firms that are able to make decisions quickly and be flexible.

Respondents confirmed the importance of *creating change* to business performance in their organisations as found in previous studies of Byus and Lomerson (2004) and Nwokah and Maclayton (2006). However, although this trait is identified as the most important one to achieve high performance, it is ranked lower than expected by respondents. A common response is that their organisations are not very interested in being innovative. Some respondents stated that this was due to the lack of delegated power to be innovative; lack of appropriate resources, in particular financial resources; and the failure by many organisations to provide an appropriate reward system to encourage innovation.

A higher score for *creating change* may be an indicator of an organisational core competence (Ljungquist 2007). However, given the current perception by respondents that *adaptability's* influence on business performance is lower than other factors, even though incorrect, it may be that some organisations do not understand the importance of developing *creating change* as potential core competency in a competitive environment. This situation appears to be typical for firms with small margins and lack of funding for innovation.

Table 9. Detailed Summary of the Mean Scores for all Cultural Traits and their Subcomponents

	Total Firms	Total SMEs	SMEs HP	SMEs LP	Large Firms	Summated Mean Difference
Consistency	3.76	3.82	3.99	3.58	3.3	20.5
Core Value	4.1	4.14	4.35	3.86	3.66	24.5
Agreement	3.65	3.75	3.97	3.45	3.03	26.0
Coordination and Integration	3.54	3.58	3.68	3.44	3.2	12.0
Adaptability	3.64	3.66	3.81	3.47	3.41	17.0
Creating Change	3.77	3.81	4.06	3.46	3.4	30.0
Customer Focus	3.59	3.58	3.68	3.45	3.6	11.2
Organisational Learning	3.56	3.6	3.67	3.5	3.23	8.5
Mission	3.77	3.81	3.97	3.6	3.31	18.5
Strategic Direction	3.7	3.76	3.98	3.48	3	25.0
Goals and Objectives	4.02	4.05	4.23	3.81	3.63	21.0
Vision	3.59	3.62	3.71	3.51	3.29	10.0
Involvement	3.87	3.9	4.05	3.69	3.59	18.0
Empowerment	3.98	4.02	4.21	3.75	3.57	23.0
Team Orientation	4.06	4.09	4.28	3.83	3.77	22.5
Capability Development	3.57	3.58	3.67	3.46	3.43	10.5

*SMEs-small to medium firms; **HP- high performing firms, ***LP – low performing firms

Further analysis identified that high performing firms were more likely than low performing organisations to do things in a flexible, easy to change way; they respond well to competitors and other changes in the business environment; they adopt innovative ways to work. In such organisations, different sectors cooperate to create change.

Interestingly, through the interviews we found that low performing organisations were less resistant to change than high performing ones. Although this finding might seem surprising, it could also suggest low performing organisations may jump on each new opportunity to improve short-term performance, rather than build a long-term strategic direction.

Customer focus is seen by respondents to have a lesser influence on performance than other factors (See Table 9). This finding obviously conflicts with Allen and Helms (2002) who argue that customer satisfaction is critical for business success. Further analysis identified that although most organisations understand the link between customer focus and business performance, many respondents find unnecessary for all employees to have knowledge of their customer's needs; rather they need to have relevant knowledge to do their jobs. This finding suggests a potential dilemma for organisations to decide what level of customer knowledge their employees need to have. We found that in high performing firms, employees were encouraged to have direct contact with customers, to listen and act on customer comments; and have a deep understanding of customer wants and needs.

In accordance with Hyland *et al.* (2001) and Vakola and Rezgui (2000), the respondents identified *organisational learning* as significant for business performance, but not very important as other factors are. In

our study it did not rank highly compared to other factors. Many respondents state that full benefit of a *learning organisation* is not achievable because of the existing not stimulating reward systems.

According to our research results, the high performing firms are more likely to regard failure as an opportunity for learning. They encourage and reward innovation and risk taking. They also regard learning as an important objective in day-to-day work.

Mission Trait

Given the current economic situation, a slightly lower ranking of *mission* compared to other traits was not surprising.

From the point of view of *strategic direction*, we found that high performing organisations are more likely to have long-term purpose and goals linked to an overall strategy. They have mission with clear meaning and direction to pursue business activities, indicating an intention to be the industry leader.

Interestingly, the respondents from the low performing firms have more clear strategic direction than high performing firms, although they have less capacity to effectively follow that direction.

When it comes to *goals and objective*, the high performing firms are more likely to have agreed goals by all employees. They have leaders who publically declare their ambitious and realistic goals, and continuously track progress against goals.

Further, we found that high performing firms are more likely to have shared *vision* that creates excitement and motivation for employees; thus indicating the employees' involvement in the planning process. Their leaders have defined that long-term goals meet short-term demands without compromising long-term *vision*.

Involvement Trait

Involvement was considered very important by respondents, yet multiple regression identified it had little to do with explaining changes in business performance (See Table 7). Analysis between high performing firms and low performing firms identified the differences in *empowerment*, *team orientation* and *capability development*.

High performing firms motivate their employees to achieve superior results by making decisions at the level with the best available information, information sharing, and having an inclusive and on-going business planning process. Further, high performing firms have organisational structure based on teams. Thus, they encourage cooperation across the organisation through teamwork and they delegate authority, allowing the employees to act on their own. Recognizing capabilities of their employees as an important competitive advantage, these firms continually invest in improving their employees' skills.

Overall, the respondents' consideration of consistency as the highest importance of cultural traits to achieving high performance is not in accordance with our findings. We have found that automotive organisations may increase their organisational performance by paying more attention to *adaptability* attributes, and in particular to *creating change* through doing things in a flexible, easy to change way; responding well to competitors and other changes in the business environment; adopting innovative ways to work; and encouraging cooperation between different parts of the organisation.

From the point of view of high performing organisations and low performing organisations we found that the two variables with the greatest summated means difference were *creating change* (30.0) and *gaining agreement* (26.0). This finding is consistent with the findings of multiple regression analysis and further demonstrates the importance of firms being adaptable in times of rapid change.

CONCLUSIONS

The research project has revealed a link between corporate culture and business performance in the Australian automobile industry. *Adaptability* to environmental changes seems to be the key to sustainable business performance. This suggests that, the organisations should focus on all four cultural traits: *involvement*, *consistency*, *adaptability* and *mission*, as each plays an important, different and integrated role in achieving business performance outcomes.

Since the *adaptability* is identified as a key factor in enhancing business performance, a message to the Australian automotive industry is to concentrate on *creating change*, build strong customer focus, and become learning organisations. Low performing firms need to create an environment that encourages change, adopt new ways to do work, and improve teamwork.

When it comes to *involvement*, companies should encourage *team orientation* and employees' *empowerment*. For *mission* trade, the companies' goal setting should include employees' participation in the planning process.

Finally, for *consistency* trait improvement, companies should act more ethically.

Future research could focus on both internal and external environmental factors affecting business performance, their measurement and use to gain a sustainable competitive advantage.

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THE EFFECT OF FAMILY CULTURE ON FAMILY BUSINESS: A RESEARCH ON FAMILY BUSINESS IN ISTANBUL CHAMBER OF COMMERCE

Canan Çetin
Ata Özdemirci
Erkan Taşkıran
Esra Dinç Özcan

Marmara University, Turkey

ABSTRACT

Turkish firms, especially the firms that carries the family traditions shows distinctive and unique cultural forms and this had been the main theme of a lot of research. But, the effect of family culture on family business and its reflections on organization and strategy is still stays untouched. The main object of this study is to examine the effect of family culture on corporate culture and Turkish business life. The universe of the study is the family firms in Istanbul Chamber of Commerce which are at least 10 years old and which have minimum capital of 250000 TL.

At the end of this study, it is seen that the effect of family culture is significant on the (perceived) firm performance. The effect of value attributed to individuals in family is positive and very high, and the effect of power of family culture is negative and high. Also centralism is still the most powerful management style in family business. Turkish style still looks like a “one man’s show”. Good performance needs valuable individuals more than power or influence of family culture.

Keywords: Family business, family culture, founder centralism, organizational culture.

LITERATURE REVIEW

In recent years, the term “corporate culture” has been used widely to describe shared attitudes, beliefs, values, and expectations that interact to create behavioral norms within the work environment. (Hanks and Sussman, 1990) Today, the companies are required to set own values which are different from the other companies and are not easily to be imitated by the others in order to align with rapidly changing environment conditions and to be ahead of their competitors. This necessity forces companies to have distinct beliefs, norms and values. When the culture, which is developed within the boundries of the company, unites with the employees, the new concept that is called organizational culture forms within the organization. The notion of organizational culture has been very important in the studies for the last decade. In spite of disagreements over some elements of definition and measurement, researchers seem to agree that culture may be an important factor in determining how well an individual fits an organizational context (O’Reilly, Chatman and Caldwell, 1991). According to Schein (1984:3), organizational culture can be defined as “the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaption and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”. All the organizations have their own cultures when they share some specific values and this structure helps values align with the behaviors. Within this context, the companies who have strong organizational culture can observe the positive impacts of culture over the company’s performance.

In family businesses the role of culture stronger than in non family firms as family members tend to maintain and strengthen the founder’s value over the long term. (Casillas, Acedo and Moreno, 2007). Family businesses are accepted to be the corner stones of the economy especially in the developing countries. Although theoretical efforts to describe family business have been made (Astrachan and Shanker, 2003; Chua, Chrisman and Sharma, 1999), no single definition exists (Sharma, 2004). Brun de Pontet, Wrosch and Gagne (2007) defines family

business as a company whose ownership and management are concentrated in one family, with at least one member of the family at the helm of the business and another being groomed or considered for eventual leadership. With another definition, family business can be described as the business in which the family owns a significant part of the business and the family members are highly involved in the management and control of the business. Family businesses contribute a significant portion of the gross domestic production and employment. In many countries, family businesses contribute a substantial amount to their gross national production and provide the reduction of unemployment. It is evident that family businesses play a major role in most countries' economic development, yet very little research has been done on family businesses (Mwenja, 2006).

Organizational culture in the area of family business is especially complex, and thus the culture emerges not only from the relationships that exist at the heart of the firm itself, but also with regard to family members. Therefore, cultural values that belong to the family are mixed with those generated exclusively in the organization. (Casillas, Acedo and Moreno, 2007).

The family as a social unit achieves cohesion through the sharing of values, beliefs, perceptions, and expectations among its members. (Hanks and Sussman, 1990). Each family has own culture –unwritten operating rules that govern relationships, communication and decision-making. Although these qualities are non quantifiable they are very real and play an important role in the operation in the business and the way owners make their decisions. (Jurinski and Zwick, 2002) A family culture develops and is sustained through intergenerational transmission of myths, beliefs, and resources. Family culture is enacted in the rituals that represent family values. (Hanks and Sussman, 1990). Family members internalize values throughout their lives from parents. (Storey, 2000) Besides, maintaining the ability to create and spread organizational culture, which contains values, beliefs and norms, over generations and members of the family especially in terms of strategic sustainability is a primary concern of many family businesses (Salvato and Melin, 2008). It is expected from the family businesses to share the values and beliefs among the members of family and the executives so as to be rapidly institutionalized and developed. In family businesses, sustainability and succession is the main process that aims at sharing the values, beliefs and norms and ensuring competent family leadership across the generations (Mazzolo, Marchisio and Astrachan, 2008).

Overall, culture predominant in family businesses is formed as a result of family, background of the family and social relationships within the family. Transmission of these beliefs and values through generations shape the family and the valid cultural model of the family. All families construct their family paradigms according to their beliefs on life. This paradigm has an effect on ways of solving problems and families' viewpoints of relationships, and most of the time it determines not only the culture of the family but also the culture of the family business .(Akdoğan and Mirap, 2008)

The fact that the family has authorization to control and own the firm, the fact that the family and the entrepreneur have a great role on management of the firm causes their values and vision to be present in the firm, thereby making organizational culture dominant in family business. It has been argued that inimitable cultures can be source of sustained competitive advantage. Thus if owners can deeply inculcate values in family members that are conducive to organizational success, the family business may have a competitive edge. Further, the fact that family members may identify more strongly with the family business and have a network of family friends/business contacts to turn to can increase this advantage. (Storey, 2000)

Considering the companies in our country, Turkey, especially the companies whose family orientation has been maintained, it can be easily observed that they have their own cultural structures and these structures have been a major topics of various researches in the last decade. On the other hand, although many researches in international literature have yet been conducted about the effect of family culture upon organization culture, this subject has not been taken into account in our domestic literature. Within this frame, the main purpose of this research is to investigate comprehensively the effect of family culture upon the organization culture.

METHODOLOGY

The universe of the study is the family firms in Istanbul Chamber of Commerce which are at least 10 years old and which have minimum capital of 250000 TL. It's estimated that the population of the universe is approximately between 15000 and 20000.

In social sciences, for a strong sample to make generalization about the universe, you need

$n = t^2 pq / \epsilon^2$ samples. In here;

n: sample size

p and q: homogeneity of the sample. (this is 0,5 and 0,5 for heterogeneous sample)

t: 1,96 for %5

ϵ : 0,05

n=138 (this is our estimated sample size)

The type of the research is hypothetic research. Data collection method is survey. Sample selection method is coincidental. We used the scale of Klein (2005) "Family Influence on Business", scale of Koiranen (2002) for "Family Culture Influence on Business", the scale of Borgatti (1999) for "Founder/CEO Centralism" and the scale of Denison (2001) for "Family Culture / Organization Culture" factor. We also asked demographics and 10 questions about the firm's perceived performance. We have 67 items on the survey. Likert Scale-5 is used in all questions.

We made face-to-face survey as much as we can, but we'll also used mail and telephone survey for reaching maximum participation. We used factor analysis to determine the dimensions of the measures. We also made K-S test for normal distribution and Cronbach Alpha test for reliability. ANOVA, Scheffe, t test, Correlation and Regression tests are made with SPSS 17.0 to measure the power of our hypothesis.

Measures and Reliabilities

Table 1: Measures and Reliabilities

MEASURE	DEVELOPERS	ITEM NUMBER	Cronbach Alpha
FAMILY INFLUENCE ON BUSINESS (FPI)	Klein, 2005	3	-
FAMILY CULTURE INFLUENCE ON BUSINESS (FCI)	Koiranen, 2002	12	,934
FOUNDER / CEO CENTRALISM	Borgatti, 1999	12	,909
FAMILY CULTURE / ORGANIZATONAL CULTURE	Denison, 2001	12/ 12	,945 / ,896

Factors

Explanatory factor analysis is made for establishing the sub dimensions of measures. All factors have passed the KMO Measure of Sampling Adequacy and Bartlett test of Sphericity which means that our data set is appropriate for factor analyses. Principal components and varimax method are used in analysis. For all measures, items which have factor weight below 0,50; unique items in a factor; items with close factor weights are leaved out of evaluation. After this processes, factors which have initial eigenvalues over 1,00 and Cronbach Alpha over 0,65 are:

2 factors in Family Culture Measure (Cumulative Extraction Sums= %74,32) which can be called as "Power of Family Culture" and "Value Attributed to Individuals" and 3 factor in Organizational Culture Measure (Cumulative Extraction Sums= %70,02) which can be called as "Power of Organizational Culture", "Value Attributed to Individuals" and "Individual Initiatives".

Table 2: Correlations

	1	2	3	4	5	6	7	8	
1. FPI	1								
2. FCI	-,109	1							
3. Centralism	-,147	,907**	1						
4. Power of Org. Culture	-,091	,784**	,741**	1					
5. Value Att. to Individuals in Org.	,208*	,520**	,522**	,609**	1				
6. Individual Initiatives	-,105	,130	,136	,428**	,251**	1			
7. Power of Family Culture	-,035	,711**	,580**	,859**	,459**	,495**	1		
8. Value Att. to Individuals in Fam.	,028	,614**	,634**	,718**	,760**	,503**	,754**	1	
9. Performance	,025	,337**	,465**	,324**	,531**	,219*	,225*	,564**	1

N=106, *p<0,05, **p<0,01

When we look at the correlation table (Table 2), we see a significant positive correlation between Family Influence on Business (FPI) and Value Attributed to Individuals in Organization. There are strong positive correlations between Family Culture Influence (FCI) on Business and Centralism, Power of Organizational Culture, Power of Family Culture, Value Attributed to Individuals in Family. This shows us there is a big colinearity between our independent factors, because of the complexity and similarity of these concepts.

Although the significant correlations between our independent variables (FCI, Centralism, Power of Org. Culture, Value Att. to Individuals in Org., Individual Initiatives, Power of Family Culture, Value Att. to Individuals in Family) and dependent variable (Performance) we have to make a hierarchical regression test because of this colinearity.

Table 3: Hierarchical Regression Test- I

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,122	,232		9,150	,000
	Value Att. to Individuals in Fam.	,462	,066	,564**	6,962	,000
2	(Constant)	2,548	,241		10,567	,000
	Value Att. to Individuals in Fam.	,749	,094	,913**	7,931	,000
	Power of Family Culture	-,367	,091	-,463**	-4,023	,000
3	(Constant)	2,283	,252		9,047	,000
	Value Att. to Individuals in Fam.	,648	,098	,790**	6,592	,000
	Power of Family Culture	-,417	,090	-,527**	-4,628	,000
	Centralism	,225	,081	,269**	2,784	,006

Dependent Variable: Performance; N=106, *p<0,05, **p<0,01

Table 4: Hierarchical Regression Test- II

	Adjusted R ²	S.E.	Δ R ²	Δ F	p
Model 1	,311	,48998	,318	48,472	,000
Model 2	,399	,45770	,093	16,187	,000
Model 3	,436	,44339	,042	7,752	,006

Hierarchical regression test shows that the most important independent variable on performance is the value attributed to individuals in family ($\beta=,790^{**}$), the second is power of family culture ($\beta=,527$), and the third is centralism ($\beta=,269^{**}$).

So, the effect of family culture is significant on the (perceived) firm performance. The effect of value attributed to individuals in family is positive and very high, and the effect of power of family culture is negative and high.

Also centralism is still the most powerful management style in family business. Good performance needs valuable individuals more than power or influence of family culture.

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INTEGRATING BOTH NEGATIVE AND UNRECOGNISED POSITIVE IMPLICATIONS OF CULTURAL DIVERSITY FOR STRATEGIC MANAGEMENT OF COMPANIES OPERATING ACROSS THE BORDERS

Salih YEŞİL, Adnan ÇELİK, İbrahim AKBEN
Kahramanmaraş Sütçü İmam University, Turkey

ABSTRACT

Doing business across the borders provides companies with several strategic advantages along with many disadvantages. Capitalizing on the advantages and managing disadvantages is likely to determine the success of the international companies. Cultural diversity is one of the most important challenges that international companies face in global markets. Although cultural diversity is generally associated with negative connotations and outcomes, it is the source of positive outcomes. If both negative and positive outcomes of cultural diversity are well understood and managed, cultural diversity can be turned into strategic competitive advantages.

This study aims to integrate both negative and unrecognized positive outcomes of cultural diversity in order to better manage and achieve sustainable competitive advantages for companies operating across the borders.

Keywords: *culture, cultural diversity, cultural implications, competitive advantage, international companies*

INTRODUCTION

Crossing the borders provides companies with several strategic advantages, such as opportunities for expansion, growth and income along with various problems. Cultural diversity is one of the most important challenges that companies confront across the borders. Cultural diversity affects the business and has the potential to result in success and failure of the companies. This makes the topic very interesting and very important. Because of this, cultural diversity needs a special treatment form both the academic and business world. Therefore, the cultural differences and associated challenges should be taken into account if the companies are to be successful in the global economy. It is also necessary for the companies to learn how to manage these challenges and turn them into competitive advantage

Previous studies have generally concentrated on the difficulties, problems (Bassett-Jones, 2005; Dalyan, 2004; Early and Gibson, 1998; Hambrick et al., 1998; Salk, 1997, Watson et al., 1993), and failure of companies (Barkema et al., 1997; Hall, 1995; Lane and Beamish, 1990) due to cultural differences. The related literature draws attentions to only negative implications and connotations. This perspective does not reflect the full implications of cultural diversity. It should be recognized that cultural diversity is also associated with several positive outcomes. Cultural diversity can increase the creative and innovative capacity of the companies. When cultural diversity is the case, both negative and positive implications should be taken into account. If managed well, cultural diversity can be a source of competitive advantage for the international companies. If not managed well, it can be a source of failure ad many problems. Managing cultural diversity can also prove that several problems associated with cultural diversity can be diminished.

This study aims to investigate the cultural diversity and its full implications for the strategic management of companies operating across the borders. This study takes on an integrative approach and outline both positive and negative implications of cultural diversity that can affect the success and failure of strategic management of international companies. The study suggests that positive implications of cultural diversity rather than negative implications should be promoted to benefit most from cultural diversity. The study also explains how to manage cultural diversity so that cultural diversity based sustainable competitive advantages are realized and cultural diversity based negative implications are diminished. The study concludes with some recommendation for the companies

INTERNATIONAL BUSINESS IS A MANDATE WITH SEVERAL ADVANTAGES AND DISADVANTAGES

Alon and Higgins (2005) argue that conducting global, international, and cross-cultural business is a mundane reality for most contemporary large organizations. Regardless of the company size, the companies experience globalization through interactions with global participants that belong to at least one, or perhaps more, of these four key categories: customers, competitors, suppliers, or employees. Adler (1997) also noted that ‘the modern business enterprise has no place to hide, it has also no place to go but everywhere’. Today many companies across the world widened their horizons and involved in the cross-border business activities.

Although doing business across the borders is important and provides great advantages to companies, it also poses great challenges to companies (Mutlu, 1999). Nardon and Steers (2007) argue that today, a major challenge facing managers and entrepreneurs is how to deal with both partners and competitors abroad whom we simply don’t understand. More often than not, the problem is not just language differences; it is cultural differences. Cultural diversity affects the business in every aspect and may result in success and failure of the companies.

DEFINING CULTURE AND CULTURAL DIVERSITY

Culture has been defined in relations to the perspectives of various literatures. In the business literature, the most frequently used definition was provided by Hofstede (1984). According to him, culture is “the collective programming of mind, which distinguishes the members of one human group from another”. Similarly Trompenaars and Hampden-Turner (1997:2) defined the culture as “a shared system of meanings. It dictates what we pay attention to, how we act, and what we value”. Trompenaars and Hampden-Turner (1997:24) further argued that “culture is man-made, confirmed by others, conventionalized and passed on for younger people or newcomers to learn. It provides people with a meaningful context in which to meet, to think about themselves and face the world”. Culture is beneath awareness in the sense that no one bothers to verbalize it, yet it forms the roots of action (Trompenaars and Hampden-Turner, 1997:24). DiStefano and Maznevski (2003) defined the culture as a system of values, beliefs, assumptions and norms, shared among a group of people. The group could be a country, region, religion, profession, organization, even a generation or a social or sporting club. The group’s cultural system is a general agreement among people about what is important and how things will get done. Koçel (2003) argues that there is no such definition that can satisfy everybody. This is because of the fact that culture is studied in various disciplines and people who study culture take different perspectives and objectives. Koçel (2003:29) defines culture as the sum of learned and shared values, beliefs, attitudes and symbols.

The cultural studies conducted so far have surveyed human values world-wide to map the cultures of the nations (Chinese Culture Connection, 1987; Hofstede, 1980; Schwartz, 1994; Smith et al., 1996; Trompenaars and Hampden-Turner, 1997). Although cultural studies used different methodology in data analysis, surveyed different nations with different sets of respondents, there are some conceptual overlaps with regard to the cultural dimensions found (Goodwin, 1999; Smith and Bond, 1998; Smith et al., 1996). Two of these studies seem to dominate the business literature and have been widely used in several culture related researches. The most commonly used study is the Hofstede’s work, which surveyed work-related values across the countries. This study allocates cultural value scores to each country representing cultural tendencies. For example, one country may reflect individualistic cultural values; the other would prefer collectivist values. The other study is Trompenaars and Hampden-Turner’ country survey. Trompenaars and Hampden-Turner argue that cultures dance from one preferred end to the opposite and back. Such view seems to be in contrast with Hofstede’s study, which perceives cultures as static points on a dual axis map. Trompenaars and Hampden-Turner (1997:26) believe that “one cultural category seeks to manage its opposite and that value dimensions self-organize in systems to generate new meanings”. It should also be remembered that the value dimensions and value scores reflect national cultural tendencies and can not be assumed that these tendencies are valid for specific people in a particular country. In addition to these two studies, Maznevski and DiStefano (2003) developed a ‘cultural orientations framework’, which compares cultures on several important dimensions. The Cultural Orientations Framework identifies six basic issues that all groups must address and resolve in order to function effectively. The six issues are 1) relationship to the environment, 2) relations among people, 3) mode of activity, 4) human nature, 5) time and 6) space. Groups of people deal with these issues in different ways, and the combinations provide the patterns of cultural systems. A recent study has attempted to converge these cultural dimension to

simplify the existing various dimensions (Nardon and Steers, 2006). Nardon and Steers (2006) classified the existing dimensions into five common dimensions:

- Relationship with the Environment: Mastery vs. Harmony,
- Social Organization: Individualistic vs. Collectivistic,
- Power Distribution: Hierarchical vs. Egalitarian,
- Rule Orientation: Rule-Based vs. Relationship-Based,
- Time Orientation: Monochronic vs. Polychronic

The existing cultural studies indicate that differences exist among national cultures. Adler (1986) argued that cultural diversity exists within and among the cultures; but within a single culture, certain behavior patterns are favored and other repressed. Adler (1986) further argued that the norm for a society is the most common and generally most acceptable pattern of values, attitudes, and behavior. Certain behavior patterns are favored and others repressed. Showing disapproval in the society enforces those norms. DiStefano and Maznevski (2003) argued that people from different cultures will bring with them diverse expectations about the interaction. People's cultural backgrounds influence their assumptions about how work with other people should proceed. Culture also influences what we notice, what meaning we give to events and what actions we decide to take. Similarly Triandis (2006) argued that people differ in term of behaviors and perceptions.

When people from different cultural background comes together, different values, expectations, beliefs and behavior as a reflection of their culture will dominate the relationship. Different cultural values, attitudes and behavior will make it hard for the people to communicate, cooperate and work effectively. Cultural difference is likely to create different types of problems for the parties involved. This is also the case for the companies operating across the borders. They have to cooperate, communicate and work with people with different cultural background. When companies engage in cross the border business activities, cultural differences are likely to prevail and make the working relationship and cooperation more difficult. These companies need to understand culture, cultural differences and their full implications for a better strategic management

THE IMPLICATIONS OF CULTURAL DIVERSITY

When the companies do business across the borders, cultural differences and their implications becomes very important. The success in the global markets entails to understand cultural differences and their implications and turn them into advantages. .

Although cultural diversity is likely to result in both negative and positive outcomes, the related literature tends to less focus on the positive side of cultural diversity. It is common to associate cultural diversity with only negative connotations. This creates wrong impression and prejudices against cultural diversity. This in turn leads to bypass positive outcomes associated with cultural differences. People tend to view cultural differences as problems rather than seeing them as valuable competitive assets. Thus this perspective has to change and replaced with a positive view of cultural diversity.

The following sections integrate both negative and unrecognized positive implication of cultural diversity and show how to turn cultural diversity into strategic competitive advantages.

Cultural Diversity: Negative Implications

Cultural values affect the behavior of individuals, their opinions about how things are, and should be, and their sense of good and bad (Hofstede, 1984). Thus, differences in term of values, behavior, and opinions are reflected when individuals and organizations from different cultures do business. The cultural differences are likely to result in integration problems, communication difficulties and conflict, which in turn negatively affect cross-cultural interaction between people, organizations as well as people in multicultural teams.

When the people from various cultural backgrounds get together, cultural differences are likely to create integration problems. Cultural differences are likely to decrease social integration. For example, Wagner (1995) argued that the aspect of individualism and collectivism that concerns differences in personal independence and self-reliance has a direct effect on co-operation. Individualists who feel independent and self-reliant are less apt to engage in co-operative behavior, and collectivists who feel dependent and reliant on groups are more likely to behave co-operatively. Similarly, Adler (1986) argued that people are generally drawn to people who are similar.

When the people are dissimilar in terms of culture, lower interpersonal attractiveness, and stereotyping, more within-culture conversation is likely to occur in inter-cultural situations.

Cultural difference can also result in communication problems. DiStefano and Maznevski (2003) argued that cultural background affects the assumptions about how the interaction takes place among people. People with different cultural background are likely to have interaction difficulties with other people belonging to a different culture. Lane et al., (1997) argued that even the interaction within the same culture could be very problematic so it would not be hard to imagine how difficult it would be to communicate with people from other cultures. Interactions with people from different cultures present an even greater potential for distortions and misunderstanding. Trompenaars and Hampden-Turner (1997:85) argued that miscommunication is more likely than dialogue for international managers. Some studies have also shown that culture has an enormous impact on communication (Meyer, 1993). For example, relationship building, conversation style, meeting style, stereotypes and negotiating style reflect different patterns in different cultures (Adler and Graham, 1989; Tinsley and Pillutla, 1998). Therefore, people from various cultures have different communication style, conversation style and meeting style, which are likely to increase communication difficulties.

As a result of cultural diversity, companies engaging in international business activities are likely to experience different types of conflict. Early and Gibson (1998) noted that conflict is more likely in cross-cultural situations due to several reasons. Hofstede (1980) argued that the influence of culture on behavior and management systems is likely to create conflicts. Pfeffer (1983) noted that diverse people have the potential to experience more conflict with one another because they are likely to have fewer experiences in common, and more differences of opinion than similar ones. Distefano and Maznevski (2003) argued that people's cultural backgrounds influence their assumptions about how work and interactions with other people should proceed. This results in deep and difficult conflicts. Lane and Beamish (1990) argued that consensus decision-making takes time and creates conflicts within one single culture. The potential for misunderstanding and conflict across cultures can be enormous.

Cultural differences are also translated into different sorts of systems, policies, management practices, and interpersonal relationships. The theoretical and empirical studies in the literature confirm that management practices differ across cultures. Cultural differences are reflected through different managerial styles (Evans et al., 1989), HRM practices (Schuler and Rogovsky, 1998), and work values (England, 1995) When the companies from different cultures work together, problems will be inevitable. Supporting this argument, a study conducted by Schneider and DeMeyer (1991) found that managers from different cultures are likely to give different interpretations and responses to the same strategic issue due to their distinct cognitive perceptions of environmental opportunities, threats, and organizational weaknesses. Many studies also showed that management approaches, techniques along with organizational behaviors differ across the cultures.

INTEGRATING BOTH NEGATIVE AND UNRECOGNIZED POSITIVE IMPLICATIONS OF CULTURAL DIVERSITY

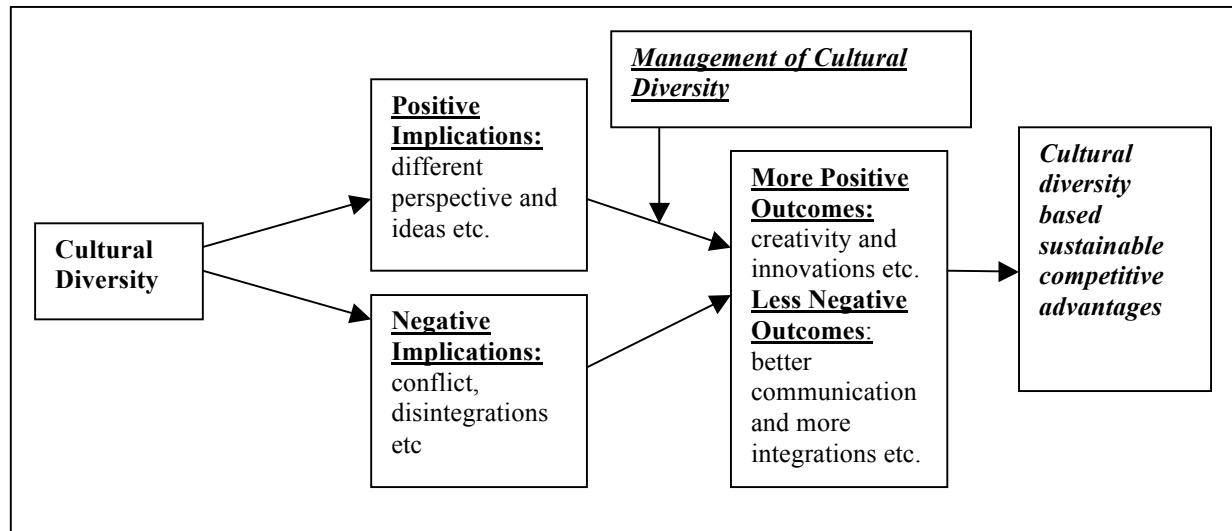
The main objective of this study is to integrate the both negative and positive implications of the cultural diversity. As shown in Exhibit 1, cultural diversity is not only associated with negative implications but also with positive outcomes.

Seeing cultural diversity as problems and observing only negative implications does not reflect reality. This perspective is likely to limit out understanding of cultural diversity and create more negative opinions about cultural diversity. Having such an idea will also frighten companies to enter into intercultural business relationship and consequently affect international business activities. This line of thinking is likely to increase the tension and limit the realization of positive outcomes of cultural diversity. One should see the real picture and uncover the potential embedded in cultural diversity. The academic and business world needs to see the cultural diversity from this perspective.

Instead of just seeing negative implication of cultural diversity, the attention should be on positive outcomes of cultural diversity. When talking about cultural diversity, positive outcomes of cultural diversity should come to the minds of people rather than negative ones. This perspective will bring positive awareness about other cultures, initiate desires for understanding other cultures and create positive connotation associated with cultural diversity. Cultural diversity based positive outcomes should be emphasized and promoted. International companies adopting this perspective will take positive perspective and approaches against cultural diversity. This in turn tends to create more healthy intercultural business relationships.

Associating cultural diversity with positive outcomes can help to realize the positive outcomes. If cultural diversity is seen and managed as a valuable competitive asset, cultural diversity based sustainable competitive advantages can be realized. As a result of positive perspectives toward cultural diversity and management of cultural diversity, negative connotation and outcomes can also be diminished. This will in turn generate more positive outcomes along with less negative outcomes for the international companies. The following sections explain unrecognized positive outcomes of cultural diversity and how to turn cultural diversity into cultural diversity based sustainable competitive advantage.

EXHIBIT 1: INTEGRATING POSITIVE AND NEGATIVE IMPLICATIONS OF CULTURAL DIVERSITY AND REALISING CULTURAL DIVERSITY BASED COMPETITIVE ADVANTAGE



Cultural Diversity: Unrecognized Positive Implications

Both theoretical and empirical studies show that cultural differences can benefit organization in various ways. Culture affects people’s values, attitudes and behavior (Hofstede, 1984). At the individual and group level, these differences are reflected through diverse perspectives and opinions, which in turn can increase creativity and innovation. Such diverse views are more likely to help to solve problem and to make better decision by creating more alternatives to the problems and decision-making. Schneider and DeMeyer (1991) argued that culture gives manager different knowledge bases and distinct perception. In their research, they found that managers responded and interpreted the same strategic issue differently. Dalyan (2004) argued that the potential for creativity and effective decision making will be enormous in multicultural teams. Nardon and Steers (2007) noted that interacting with others brings the possibility of learning more about ourselves, discovering new ways of doing things, and finding creative solutions to both new problems and old. Thus, cultural diversity is likely to increase the range of perspectives and ideas, improve problem solving, creativity, and innovation within culturally diverse groups (Adler, 1986; Hambrick et al., 1998; Kirchmeyer and McLellan, 1991; Natcher et al., (2005); Watson et al, 1993).

Cultural diversity can be beneficial to the companies as well. At the organizational level, the cultural differences can also be a source of competitive advantage. Adler (1986: 99) argued that cultural diversity can create multiple perspectives, increase openness to new ideas and bring in multiple interpretations. It can also increase creativity, flexibility and problem solving skills. Organizations can take an advantage of cultural differences. DiStefano and Maznevski (2000) argued that cultural diversity can be an important source for innovation. Adler (1986) summarized how cultural diversity can help organizations. Cultural diversity can decrease groupthink by bringing in multiple perspectives to decision-making and thus improving decision-making. Diversity also helps organization to expand its perspectives, its approach, its operations and product line. They can also help organization to reposition themselves in a new marketing plan, planning new operation, or assessing the trends from a new perspective. Cultural diversity increases responsiveness of the organization to world markets by better understanding their customers worldwide and accordingly their needs. Mead (1998) also noted that

companies hiring people with different cultural background can obtain competitive advantages in the area of problem solving, lowering cost and adapting to changing environment.

Cultural diversity can create positive outcomes but this does not come easy. Realizing cultural diversity based positive outcomes requires understanding culture, cultural diversity and its full implications along with taking a positive approach and management of cultural diversity.

REALIZING CULTURAL DIVERSITY BASED SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH MANAGEMENT OF CULTURAL DIVERSITY FOR THE STRATEGIC MANAGEMENT OF INTERNATIONAL COMPANIES

Global competition along with complex and uncertain world market threaten the today's companies. In today's business world, it has become very difficult to adapt to the changing conditions and to survive. Success requires constant adaptation of every aspect of the business to the changing environmental conditions. Companies have to be more efficient and effective in all areas. They have to create more creative, innovative goods and services along with strategies and methods. Creativeness and innovation seem to be magic words that both academic and business world often use to reflect upon the need for creative and innovative product, processes and management techniques. In order for companies to survive they need to be creative and innovative in every aspect of their businesses (Salaman and Storey, 2002:147; Kaasa and Vadi, 2008). Companies that are creative and innovative are likely to obtain sustainable competitive advantages.

This study suggests that cultural diversity can play an important role to obtain required creativity and innovation which in turn can help companies to have sustainable competitive advantages. Creativity and innovation come from the cultural diversity related outcomes such as diverse opinions and perspectives. As shown in Exhibit 1, companies wanting to increase their creative and innovative capacities and consequently creating sustainable competitive advantages need to manage cultural diversity in the best possible way. If cultural diversity is managed well, it is likely that companies are able to create cultural diversity based competitive advantages. If cultural diversity is not managed well, negative outcomes is expected to dominate. Supporting line of thinking, Westwood and Low (2003) argued that a positive approach and effective management is necessary for creating positive outcomes from cultural diversity.

Effective Management of cultural diversity can create cultural diversity based sustainable competitive advantage

Effective management of cultural diversity involves recognizing culture, cultural diversity, and the full implications of cultural diversity, emphasizing positive outcomes of cultural diversity, taking a positive approach to cultural diversity, and constantly seeking the best way to manage cultural diversity. Effective management of cultural diversity tend to result in maximized cultural diversity related positive outcomes such as creativity and innovation, while at the same time minimized cultural diversity based negative outcomes such as better communication and more integration. Expected cultural diversity based positive outcomes such as creativity and innovation tend to lead to sustainable competitive advantages.

Adler (1986) argues that the perception of managers with respect to cultural differences and its associated implications define their approach to managing them. As outline above, the positive perception about cultural diversity is the prerequisite for realizing cultural diversity based sustainable competitive advantage. In managing the cultural diversity, the most important thing is to recognize and understand the cultural differences and associated challenges (Lane et al., 1997; Trompenaars and Hampden-Turner, 1997). Hence, managers need to understand and take a positive approach toward managing cultural diversity. Managers have to understand both their own culture and that of others. This approach is likely to eliminate some of the potential problems and to overcome the difficulties. After the managers understand their culture, that of others, recognize the cultural differences and take a positive attitude towards them, they need to use right strategy or right combinations of strategies to manage them.

A number of strategies can be utilized to manage cultural differences. One of the most important strategies has been the use of synergy in cross-cultural situations. Particularly when two or more companies involved in some sort of business activities such as international joint ventures, synergy approach can be an invaluable asset.

Companies can take an advantage of synergy approach in intercultural situations where the combination of “our way” and “their way” can provide the best way to organize and work (Adler, 1986; Elashmawi, 1998; Lichtenberger and Naulleau, 1993; Trompenaars and Hampden-Turner, 1993). Cultural differences can be integrated to create synergy (Adler, 1986; Ehtiyar, 2003; Trompenaars and Hampden-Turner, 1997). Trompenaars and Hampden-Turner (1997:186) argued that “in matters of culture, the differences can be the chief source of attraction. Italian design and Dutch engineering can lead to conflicts, yet they could also lead to a product made in heaven. In matters of cultural diversity there is always challenge, but where this challenge is met valuable connections results”. He also added “You can join Italy’s particularism to Germany’s universalism, or join American individualism and inner-directed creativity to Japanese rapid communitarian exploitation of new products and other-directed skills of customer satisfaction. Where countries specialize in what they do best, the transnational circuits can prove unbeatable.” Trompenaars and Hampden-Turner (1997) further argued that differences should be seen as complementary rather than obstacles. Thus such perception can lead to a managerial mindset, which constantly seeks ways to increase benefits from cultural diversity. Cultural differences are reflected through different managerial styles (Evans et al., 1989), HRM practices (Schuler and Rogovsky, 1998), and work values (England, 1995). From the organizational point of view, many argued that such differences could be a source of competitive advantage for the organizations. For example Hofstede (1985) noted that trans-national mergers (generally of two companies from different countries) have a notoriously low success rate but two British-Dutch mergers (Unilever and Shell) have been successful for decades. The British and Dutch are close on the “organizational” dimension of power distance and uncertainty avoidance, as well as on individualism, but the British culture is masculine while the Dutch is feminine. It could be that these masculine-feminine mergers guarantee a balanced attention to both achievement and relationship, which are complementary elements in organizational success. Park and Ungson (1997) reported that U.S-Japanese joint ventures are less likely to dissolve than national joint ventures. They attributed this result to Japanese cultural values (trust, learning, and a long-term horizon) that maximize stability of the joint venture. Joint ventures help American partners to achieve strategic objectives such as entering the Japanese market, which consequently results in stability of the joint venture between American and Japanese partners. In another example, Tiessen (1997) argued that attributes of individualism and collectivism could contribute entrepreneurship. He argued that individualist produce breakthrough that collectivist implement and improves. Individualist shows proclivities for new venture formation and making major innovations. Collectivist generates variety through group-based, incremental improvement and changes. Similarly Morris et al. (1994) found that a balanced individualism-collectivism in organizations would foster entrepreneurship. Associated with synergy approach, some strategies can be helpful in managing cultural differences such as compromising and implementing of corporate goals that satisfy the multicultural business needs of each partner (Elashmawi, 1998). Relationships build upon trust, friendship, understanding cultural differences (Meyer, 1993; Park and Ungson 1997), understanding the values and behavioral expectations of each other along with consensus seeking (O’Keefe and O’Keefe, 1997; Walsh et al., 1999) can be great way of managing cultural differences and related challenges. Moreover, understanding, accessing, and adopting innovative practices can diminish the compounding effects of cultural differences (Park and Ungson, 1997).

Another important strategy is to adopt ‘A Model of Intercultural Effectiveness for People and Teams’ suggested by Lane et al, (1997). According to this model, first people understand their own culture and that of other, bridge the difference through communication, and manage the differences by integration. People first understand the nature and components of culture and how they affect the behavior and management systems and that of others so that differences can be identified and mapped. After this stage, these differences can be bridged by communication. Three important communication elements have been offered to help to bridge the differences. First, people should be able to have motivation and confidence in communicating across a cultural boundary both to be understood and to understand others. The other communication element is to establish a common reality and agreeing on common rules. The last component of effective communication involves decentering without blame. This means sending and receiving messages with other person’s cultural code in mind (perspective-taking) as well as making blame free and correct attributions about problems and conflicts. The next thing to do is to move forward and build on ideas. At this stage, exploration of ideas should be encouraged with the conscious attempt to invent new ideas and to build on ideas initially created. Finding solutions to issues or problems that are acceptable to all parties from various cultural backgrounds are likely to increase the synergy.

Another strategy is to develop, prepare and equip manager with required competencies and skills to manage cultural diversity. Managers are the ones who confront cultural difference and challenge. Therefore, companies should be careful in selecting and developing managers for cross-cultural business assignment. The managers need to have some special competencies, enabling them to better cope with the potential problems in cross-

cultural business interactions. Some managerial traits such as an interest in communicating and non-authoritarian leadership style can help managers to ease the tension and strain in managing the cultural challenges. Having a positive view of cultural diversity will enable them to realize the cultural based competitive advantages. Cross-cultural orientation and training programs are offered to better handle cross-cultural situations and associated problem. These are language training, brief lectures, group discussions, role-playing, video presentations, multimedia presentations and case studies (Elashmawi, 1998; Meyer, 1993). These programs can help companies to recognize and understand the cultural differences and its influence on people, management, and interpersonal relationship. These programs in general can also help managers to recognize and respect cultural diversity, which in turn create a healthier and successful intercultural business relationship. They can help to create intercultural competencies. This in turn can help to bridge the differences and obtain the best solutions to the problems faced. Language training programs can increase communication effectiveness. Some researchers also argue that successful interactions across cultures require cultural intelligence (Early and Mosakowski, 2004; Maznevski, 2006; Triandis, 2006). Tan (2004) argue that the global workplace requires individuals to be sensitive to different cultures, to interact appropriately with people from different cultures, and to analyze new cultures as they are encountered. To do all this, individuals, whether they are at home or abroad, need cultural intelligence. Earley and Ang (2003) defined cultural intelligence (CQ) as an individual's capability to deal effectively in situations characterized by cultural diversity. Earley and Ang (2003) conceptualized a multifactor concept of cultural intelligence that includes mental (metacognitive and cognitive), motivational, and behavioral components. Mental intelligence includes metacognitive and cognitive capabilities (cognitive processes and cognitive knowledge); motivational intelligence acknowledges that most cognition is motivated and that the magnitude and direction of an individual's energy represents motivational intelligence; while behavioral intelligence focuses on what individuals do (their overt actions) rather than what they think or feel (thoughts and emotions). In parallel fashion, metacognitive CQ reflects the processes individuals use to acquire and understand cultural knowledge. Cognitive CQ is general knowledge and knowledge structures about culture. Motivational CQ is magnitude and direction of energy applied toward learning about and functioning in cross-cultural situations. Behavioral CQ is the capability to exhibit appropriate verbal and nonverbal actions when interacting with people from different cultures. Trompenaars and Hampden-Turner (1997:195) also suggested that the managers should acquire transcultural competence to be successful in cross-border activities. He argued that such competence could be achieved by being aware of cultural differences, respecting them, and ultimately reconciling them. Cultural awareness means understanding states of mind, your own and those of people you meet. Genuine self-awareness recognizes the fact that people from different culture operate with different mental programs. Trompenaars and Hampden-Turner (1997:195) suggested several ways to employ in developing respect for cultural differences. For instance, he suggested looking for situations in our life in which we would behave like a person from another culture. Reconciling requires to be ourselves, but at the same time to see and understand and how other's perspective help our own. Seeing the cultures complementary rather than conflicting opposites can be useful method to help to reconcile the differences. As mentioned above synergy approach can be adopted to help to bridge the differences. Trompenaars and Hampden-Turner (1997: 210) argued that when two values work with one another, they are mutually facilitating and enhancing. Companies adopting this kind of approach in managing cultural diversity can turn cultural differences into competitive advantages.

Companies need to consider the strategies outlined above and choose the right strategy based on nature and characteristics of their international business activities. An effective management sometimes requires the best combination of the strategies rather than only one strategy. Choosing and using the right strategies in an effective manner is likely to determine the extent of cultural diversity based sustainable competitive advantage that the companies can attain from cultural diversity. .

CONCLUSION

There seems to be no way that the companies can hide from the global business realities. They need to face and capitalize on the global markets and try to prosper. Yet, this is not an easy task to accomplish. Companies are struggling to survive in today's global business world. They need to be effective and efficient as well as creative and innovative in every aspect of their business. They need to manage various challenges and take an advantage of opportunities in the best way.

Cultural diversity seems to be one of the most important challenges that companies face across the borders. Cultural diversity is generally seen as problems and related to negative connotations. It is regarded as the main factor behind failure of international business relations. However, this does not reflect real picture and refrain the companies to obtain cultural diversity based competitive advantages. Although cultural diversity produces dual outcomes, the related literature focuses mainly on negative outcomes and neglects the positive outcomes.

This study showed the full implications of cultural diversity which in turn enabled the researcher to integrate both positive and negative implications of cultural diversity. This study suggests that instead of focusing on negative implications of cultural diversity, emphasis should be placed on positive outcomes. This study also suggests that companies doing business across the borders should not see cultural diversity as only problems and associated with negative outcomes. Instead, they should see cultural diversity as a source of sustainable competitive advantage. Moreover, this study also argues that emphasizing and promoting positive outcomes can in turn help to wipe out the negative connotation and prejudices related to cultural diversity.

This study also revealed the secrets of how to turn cultural diversity into sustainable competitive advantages. This entails recognizing culture, cultural diversity, and the full implications of cultural diversity, emphasizing positive outcomes of cultural diversity, taking a positive approach to cultural diversity, and constantly seeking the best way to manage cultural diversity. Taking a positive approach to cultural diversity and managing them is likely to increase creative and innovative capacity of international companies. This in turn enables companies to realize cultural diversity based competitive advantages. Managing cultural diversity in the best possible way will also help to diminish cultural diversity based negative implications. Taking a positive approach and managing cultural diversity is likely to reduce cross-cultural tensions, misunderstanding and miscommunication and consequently lead to create and increase more healthy cross-cultural business relationships.

Several strategies and method are commonly available in the literature to manage cultural diversity. Companies need to choose right strategy or right combinations of strategies based on nature and characteristics of their cross-cultural operations. Using the right strategies is likely to ensure the expected cultural diversity based sustainable competitive advantage. The successful cross border operations of companies requires a totally different mindset set out in this study. Unless the companies obtain this type of mindset, manage and capitalize on the cultural diversity, cultural diversity is likely to continue to be the main factor behind problems and failure of the many cross-border business relationships and operations.

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THE STRATEGIC BENEFITTS OF USING ITEMS PARCELS ON AD HOC GOODNESS-OF-FIT INDECES

Tarek Kandil and Dababrata Chowdhury
University of Plymouth, UK

ABSTRACT

The impact of using item parcels on ad hoc goodness-of-fit indexes in multi-group confirmatory factor analysis was examined using the two different cultural multi group questionnaires to test scale. Different numbers of parcels per factor and different numbers of items per parcel were used. To the effect of culture on cross-border banks mergers and acquisitions long-term performance in both the British and Egyptian banks. The data collection process was carried out between January 2007 and January 2008 and was divided into three phases: 1) desk research on the banks that carried out mergers and acquisitions; 2) 13 interviews and questionnaires at the four acquired sites in Europe, and 3) 5 interviews and 3172 of 6 returned questionnaires surveys and case studies in relation to the purposes of this enquiry. Noted that parcelling can increase the fit between the sample and the implied by the model covariance matrices by (a) reducing the size of the covariance matrices of the unique factors (C_{uu}), the unique and the common factors (C_{cu}), and the transposition of the unique and the common factors (C_{uc}); (b) trimming the contribution of these matrices to the sample covariance matrix; and (c) reformulating variance due to cross-structure/pattern coefficients.

INTROUDUTION

The practice of item parceling (combining items into small groups of items within scales or subscales) has received much recent attention in the structural equation modeling literature (Bandalos, 2002; Bandalos & Finney, 2001; Little, Cunningham, Shahar, & Widaman, 2002; Nasser & Takahashi, 2003). Perhaps, a reason for its recent popularity is its potential to serve as a data analysis panacea for a variety of data problems, primarily non-normality, small sample sizes, small sample size to variable ratio, and unstable parameter estimates (Bandalos & Finney, 2001). There are as many forms of item parceling as there are reasons to conduct parceling. In fact some of the proposed methods of item parceling would appear to be having opposite effects (i.e., creating multidimensional parcels and creating unidimensional parcels). This paper seeks to clarify the methods of item parceling that are empirically based and illustrate how to form item parcels for optimum modeling capacity in structural equation models.

Rationale Regarding Item Parceling

Bandalos and Finney (2001) report that the three most common reasons researchers cite for using item parceling are to: increase the stability of the parameter estimates (29%) improve the variable to sample size ratio (22.6%), and to remedy small sample sizes (21%). The empirical evidence that parceling is a desirable correction to these data problems is mixed, however. In the majority of studies assessing the effectiveness of item parceling to solve these data problems, item parceled solutions have been compared to disaggregated analyses without item parcels. Bagozzi and colleagues, in a series of studies, reported that parceling was actually preferred to disaggregated analyses in most cases because the measurement error is reduced with parceled sets of items (Bagozzi & Heatherton, 1994; Bagozzi & Edwards, 1998). Yet, they recommend careful consideration to validity, unidimensionality, and level of specificity when constructing item parcels.

A rationale for item parceling that is often stated is to reduce the effects of nonnormality and likelihood of forming difficulty factors in factor analyses with binary items. Thompson and Melancon (1996) demonstrated that using item parceling with nonnormal data did result in more normally distributed item parcels and improved

model fit. Their method of item parceling was to create parcels of items with opposite skew in an iterative procedure that resulted in parcels with less skew than the original items.

Nasser and Takahashi (2003) examined the behavior of various fit indices as they varied both the number of parcels and number of items per parcel Using Sarason's Reactions to Tests instrument. Their results support the use of parcels rather than individual items and using a strategy to construct item parcels in which there are fewer parcels but more numbers of items per parcel. They indicate that solutions from parceled data with more items per parcels results in more normality, validity, continuity, and reliability than from parceled data with fewer items per parcel. Although, they indicated that some indices (i.e., χ^2/df and RMSEA) were less consistent and generally had better fit when more parameters in the model were estimated. As MacCallum, Widaman, Zhang, and Hong (1999) point out, parceled solutions can be expected to provide better models of fit because a) they have fewer parameters to estimate, b) they have fewer chances for residuals to be correlated, and c) they lead to a reduction in sampling error. Little, Cunningham, Shahar, and Widaman (2002) list three reasons that parceling can be advantageous over using the original items: 1) estimating large numbers of items is likely to result in spurious correlations, 2) subsets of items from a large item pool will likely share specific sources of variance that may not be of primary interest, and 3) solutions from item-level data are less likely to yield stable solutions than solutions from parcels of items. However, if the latent construct is not unidimensional, it is likely that the item parcels will also be multidimensional that that it will be difficult to define what the latent construct actually is because the structure will be a confounding of the primary factor and systematic variance that is shared across parcels. In sum, when parceling with multidimensional structures, the parceling can mask many forms of model misspecification. The other caveat of item parceling that Little et al. suggest is that the unstandardized parameters may be meaningful in clinical practice and norms may be established based on the scale of the original items and these norms may not translate to the reparameterized model with item parcels.

Studies with Known Population Structure

The aforementioned studies have relied on analyses of actual data and theoretical explanations, yet, fewer studies have been conducted in which the population structure of the underlying model was known. This is critical, as it is not known in applied studies if better model fit is necessarily a desired goal, as would be the case with a misspecified model. In simulation studies with known population parameters, it can be determined if the increase in model fit with parceling methods is due to the increased sensitivity of the parceling method to a fully specified model, or whether the increase in fit is in error in a misspecified model.

Marsh, Hau, Balla, and Grayson, (1998) and Yuan, Bentler, & Kano, (1997), in separate simulation studies, demonstrated that it was advantageous to parcel rather than to use the same number of individual items; the fit indices were higher and results were more likely to yield a proper solution when parcels were used, rather than the same number of individual items (e.g., six parcels vs. six items). However, if the total number of individual items were used (e.g., 12 items instead of six 2-item parcels), the individual items were more likely to result in a proper solution.

Hall, Snell, and Singer Foust (1999) determined, in a simulation study of item parceling under various structural models with different parceling strategies, that when a secondary factor structure exists parceling can obscure the true factor structure and result in biased parameter estimates and inflated indices of fit. However, this depends on how the secondary factor structure is modeled; if the items that all load on a secondary factor are parceled together (*isolated parceling*) the fit is not inflated. It is when the items with a secondary influence are parceled with items without the secondary influence (*distributed parceling*), that the fit is inflated. Hall et al. explained this phenomena by suggesting in the latter case that the influence of the secondary factor is distributed across parcels and this creates common variance among these parcels and hence the loadings on the primary factor increase and partially reflect the influence of the secondary factor (i.e., the influence of the secondary factor confounds the loadings on the primary factor). Yet, when the items with the secondary influence are parceled together, the common variance is not inflated since the secondary structure influence is not across all the parcels; hence the error variance increases to reflect the influence of the secondary structure and fit indices are consequently lower, relative to the distributed parceling strategy. Hall et al. further suggested that the inflated indices of fit with distributed parceling methods helps to explain why past authors in the educational testing literature (e.g., Kishton & Widaman, 1994; Lawrence & Dorans, 1987; Manhart, 1996; Schau, Stevens, Dauphinee, & Del Vecchio, 1995; Thompson & Melancon, 1996) have suggested that distributing like items across different parcels can help improve the model fit and have therefore recommended this method. As Hall et al.'s simulation work indicates, however, this strategy artificially inflates model fit and therefore Hall et al. recommend putting like items *together* when creating parcels (i.e., putting items that have high loadings on a factor together).

Bandalos (2002) in a comprehensive simulation study that varied number of items per parcel, degree of nonnormality, number of categories in original items, n sizes and correct and misspecified models, investigated the effect of item parceling under conditions of nonnormality, an oft cited reason for item parceling. The findings indicated that item parceling produces higher fit indices, less parameter bias in disturbance terms, and less Type I errors than analyses of the original items when nonnormality is introduced. The higher the level of nonnormality, the larger the discrepancy was between the parceled and non-parceled solutions, favoring the parceled solution. Bandalos concluded that model fit improvement is due to better distributional characteristics (e.g., less nonnormality and less coarse measurements) in the item parcels and a reduction in the number of variance/covariance parameters that are modeled. The caveat is that this only holds true when the factors have underlying unidimensional structures. Both Hall et al. (1999) and Bandalos (2002) have shown that when even small influences of secondary factors are present (e.g., a misspecified model) the method of item parceling makes a great deal of difference in whether the misspecification can be identified or not. Bandalos concluded that item parceling should only be done on unidimensional structures. Hall et al. also recommended parceling within unidimensional structures, and suggested that this can sometimes be achieved by factor analyzing items within factors to be parceled or by a rational analysis of item content to determine like items or items that may share method variance.

Recommended Item Parceling Techniques

The preponderance of evidence from applied studies, theoretical studies of item parceling, and studies with known population structure, indicate that item parceling can be an advantageous tool in the study of the underlying structure among latent variables (Bagozzi & Heatherton, 1994; Bagozzi & Edwards, 1998; Bandalos, 2002; Bandalos & Finney, 2001; Hall et al., 1999; Kishton & Widaman, 1994; Lawrence & Dorans, 1987; Little et al., 2002; MacCallum et al., 1999; Manhart, 1996; Marsh et al., 1998; Nasser & Takahashi, 2003; Schau et al., 1995; Thompson & Melancon, 1996; Yuan et al., 1997). Item parceling can reduce the dimensionality and number of parameters estimated, resulting in more stable parameter estimates and proper solutions of model fit (Bagozzi & Heatherton, 1994; Bagozzi & Edwards, 1998; Bandalos & Finney, 2001; Little et al., 2002; MacCallum et al., 1999). Further, when original items are severely nonnormal or are coarsely categorized, research suggests item parceling improves the normality and continuity of the indicators and estimates of model fit are enhanced as compared to the original items (Bandalos, 2002; Thompson & Melancon, 1996). Almost all studies concur on the issue of dimensionality of the item parcels. Item parcels work best when constructed on unidimensional structures. If secondary structures exist, there is not a consensus on how the items should be parceled. Although many authors have suggested that the distributed strategy of forming parcels is advantageous because it can improve model fit (e.g., Kishton & Widaman, 1994; Lawrence & Dorans, 1987; Little et al., 2002; Manhart, 1996; Schau, Stevens, Dauphinee, & Del Vecchio, 1995; Thompson & Melancon, 1996), the simulation work in this area clearly indicates that distributed parceling can mask underlying secondary structures and provide misleading indices of model fit (Bandalos, 2002; Hall et al., 1999).

Compiling this evidence leads to the following recommendations when constructing item parcels:

1. Check the dimensionality of the factors to be parceled to determine if there is a unidimensional or multidimensional factor structure. Confirm the factor structure through replication with multiple samples or with rationale review of item content. Parcel items together that represent similar facets of a construct.
 - a. If the factor is unidimensional, random methods of combining items can be used to create item parcels.
 - b. If the factor is multidimensional, use isolated parceling strategies to capture similar facets of the structure into the same item parcel (i.e., Different facets would be separated into different parcels.)
2. Check the normality/difficulty of the original items to be parceled. If very nonnormal, combine items in such a way as to maximize the normality of the resulting parcels.
 - a. For continuous or ordered categorical items, this can be accomplished by combining items with opposite skew or distributional shape.
 - b. For binary items this can be accomplished by combining items with opposite item difficulties.
3. Parcel more items per parcel rather than more parcels, *as long as the unidimensionality* of each parcel can be preserved.
4. If underlying structure to be parceled is not known or not clear, do not parcel, as the parceling may obscure the true underlying structure.

THE CURRENT RESEARCH

In the current research has two samples size. we analysis the Egyptian banks middle managers and their followers who have recently undergone M&A in the Egyptian banking sector during the period of banking reforms, the banks included registered M&A taking place in the Egyptian banking sector during the period from 2004-2007. The sample focused on acquiring banks, not target banks, due to the unavailability of financial information. The sample was composed of 10 banks in total and was divided based on the home-country of the acquiring bank, producing two main groups; Cross-Border M&A and Domestic M&A. Of the sample banks, 4 had undergone Domestic M&A (namely National Société Générale Bank(NSGB), Banque Misr, Arab African International Bank and the National Bank of Egypt)while the remaining 6 had undergone Cross-Border M&A in the Egyptian banking sector (namely Blom Bank, Audi Bank, Union National Bank, Ahli United Bank, Intresa San Paolo (San Paolo at time of M&A), and Piraeus Bank). Table 1 provides the list of acquirers, targets, dates and value of M&A.

Measures of Independent variable and mediating

1-Independent Variable: We operationalise the construct of strategic leadership as an independent variable, by identifying attributes underlying the strategic challenges in the organisational context using data and measures of leadership effectiveness from the GLOBE scale survey (House et. al., 2004). All the five dimensions scales of the leadership behaviours that related to the context of the strategically behaviours scales employed in presenting the data are based on the Arabic version of the GLOBE questionnaire, which contained 21 dimensions with 57 items in total .The leadership items assessed the extent to which the behaviour described was perceived in executives by their subordinates, measured on a five-point Likert scale ranging from “strongly disagree ” to “strongly agree” where 1 meant “Strongly disagree” and 5 meant “Strongly agree”.

2- Shared understanding values were measured by using a scale based on the ideas of Senge (1990); Hays and Hill (2001); Voss et al. (2005) It incorporates the following two dimensions: 1) our employees work closely among inter-departments to support its visions, and 2) our employees understand the results of service performance.

The measuring items of the two dimensions of shared understanding values instrument was translated from English into the native language of the participating managers, then back-translated back into English by another person, and finally approved or corrected by two members of staff of the University of Plymouth-Business School.

Data collection:

In this paper we used a combination of data collection modes. Modes of data collection appear to affect respondents' answers or the respondents' willingness to answer questions honestly (Holbrook et al., 2003). The researcher used self-administered questionnaires (SAQs), in which respondents are invited to complete either a paper questionnaire, often as part of a postal survey(free post envelop return completed forms); or a questionnaire hosted on the Internet (sometimes referred to as web-based computer-assisted self-questionnaires or web-CASI) (Holbrook et al., 2003). Ethical approve had helped the researcher to raise the respondents confidence to complete even more employees questions in the second questionnaire.

Questionnaires were distributed to middle managers of financial , human recourse and customer services departments in each bank and 3- 4 branches throughout Egypt of and subordinates in ten Egypt.

The result was a total of 253 usable responses, from 183 employees (78 men – 105 women) and 70 (34 men -36 women) middle managers.

Data Analysis

Confirmatory factor analysis was performed using Amos 17 to assess the overall measurement model and unidimensionality of the scales. Discriminate validity was shown by comparing the lowest correlation for a particular item and any other item within the factor (within factor correlations) to correlations of that item and all items outside of the factor (between factor correlations) (Campbell and Fiske, 1959). If a within-factor correlation is less than a between-factor correlation, it is a violation. The number of violations should be less than half of all comparisons, which is considered as an indication of discriminate validity (Campbell and Fiske, 1959).

Table1: Confirmatory Factor Analysis of Strategic Leadership Styles in Egyptian Acquired Banks

Dimensions	% of variance	Cronbach α	Composite Reliability
D1-Participative and Autocratic	19.768	0.820	0.923
D2-Orderly Organizer	19.37	0.813	0.918
D3-Performance Ort. &Charismatic	19.014	0.754	0.926
D4-Administratively Competent	17.226	0.719	0.915
D5-Diplomatic	15.877	0.688	0.910

Table2: Confirmatory Factor Analysis of Employees Shared Values in Egyptian Acquired Banks

Dimensions	% of variance	Cronbach α	Composite Reliability
D1- Inter-departments support	17.712	0.820	0.983
D2- Understands the results of service performance.	16.489	0.813	0.964

Item Parceling and small sample size in SEM

While the model developed shows that each of the constructs is measured by at least six items except for the performance construct and that the preliminary factor analysis was based on this loading matrix, it was considered prudent to reduce the number of indicator variables per construct. Because of the small sample size achieved, it is considered wise to use fewer items per construct as sample size and complexity are some of the major factors that affect the validity of results (Hair et al 1998). Reducing the number of items simplifies the model. The use of composite item parcelling is recommended in literature as a way of reducing the number of indicator variables (Schumacher. and Lomax 2004 and Hau and Marsh 2004). Item parcelling involves forming composite items from a number of items, thereby reducing the number of items while still accounting for all. In this research we attempted to reduce the number of Leadership behaviour items by including single factor analysis, which involves pairing off items with highest and lowest loadings as first composites based on a single factor solution. The next set of items would be the second highest and the second from the bottom. This procedure continues until all items have been parcelled. The following table shows the first new variable SLS1.

Tale3: Model constructs item parcelling

Construct	Item parcelling (new Variables)	Variables	Factor Loading
D1- Participative and Autocratic	(SLS 1)	orderly	0.781
		administratively skilled	0.766
		organized	0.734
		good administrator	0.722
		autocratic	0.708
		dictatorial	0.680
		bossy	0.655
		elitist	0.638
		enthusiastic	0.638

RESULT

Research Structural Models

The research framework, illustrated in Figure 1, was tested using Amos 17, to explore the relationships between variables simultaneously. The structural model was evaluated on the basis of Maximum Likelihood estimation model and goodness-of-fit indices such as the non-normed fit index (NNFI) (Bentler and Bonnet, 1980), the comparative fit index (CFI) (Bentler, 1990), the root mean square error of approximation (RMSEA), and the χ^2/df ratio. NNFI and CFI represent a good fit if they are between 0.80 and 0.90, and show a very good fit if they are greater than 0.90 (Segar and Grover, 1993). The recommended maximum value of RMSEA is 0.10 (Chau, 1997; Hair et al., 1998). The χ^2/df ratio provides a rough estimate of the statistical fit (i.e. the error present) versus the number of parameters estimated (i.e. df.). Better models exhibit a low ratio such as less than two (Heck, 1998). The results of the structural model indicated that there was sufficient model-to-data fit (χ^2

=217.66, df = 114, NNFI = 0.969, CFI = 0.974, RMSEA = 0.034, with the 90 percent confidence interval for RMSEA being 0.067 to 0.10, and χ^2/df 1.90).

H1 : suggested that there is positive relationship between strategic leadership behaviours and post financial performance. The results of the model supported it statistically because the path coefficient was 0.28 (P value, 0:002). Strategic leadership behaviours was significantly has a is positive relationship with mergers and acquisitions post financial performance of Egyptian banks.

H2: suggested that there is a strong positive relationship between strategic leadership behaviours and employees shared understanding values. The results of the model supported it statistically because the path coefficient was 0.66 (p** value , 0:000). Strategic leadership behaviours have strong positive relationship between strategic leadership behaviours and employees shared understanding values.

H3: suggested there is a positive relationship between employees shared understanding values and post financial performance. The results of the model supported it statistically because the path coefficient was 0.34 (P value 0.001). Strategic leadership behaviours has a positive relationship between employees shared understanding values and post financial performance

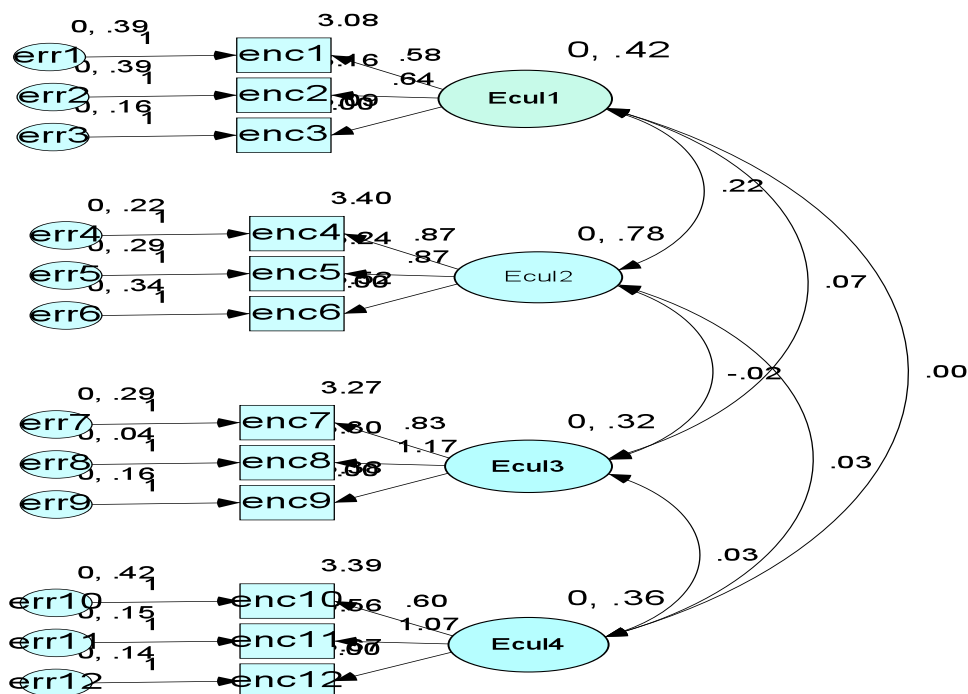


Figure (1) Confirmatory Factor analysis Of Egyptian National Culture's Dimensions (First Order)

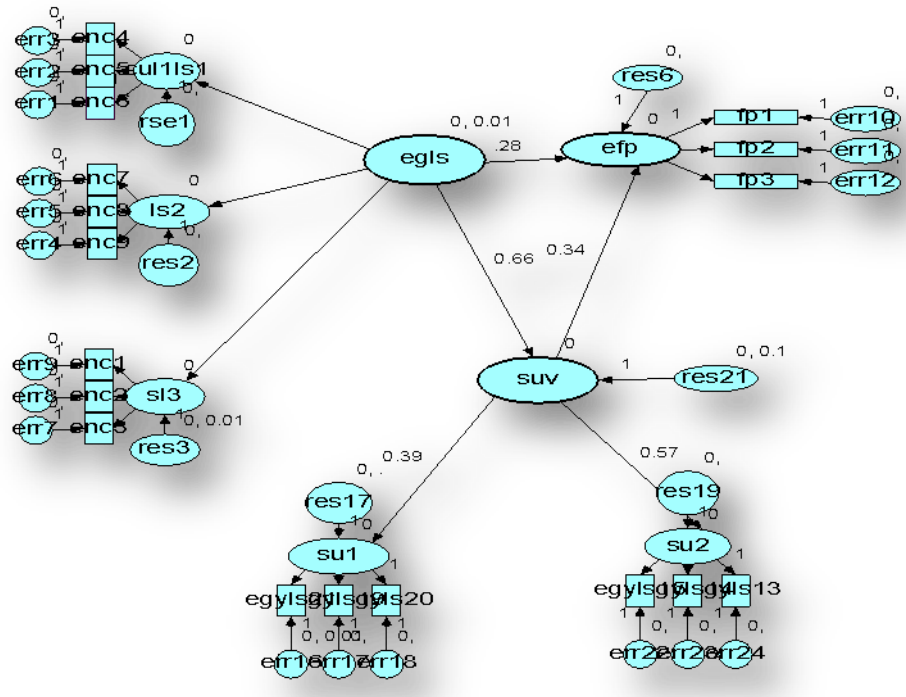


Figure (2) Structural Equation modeling for the research variables.
Finding and Discussion

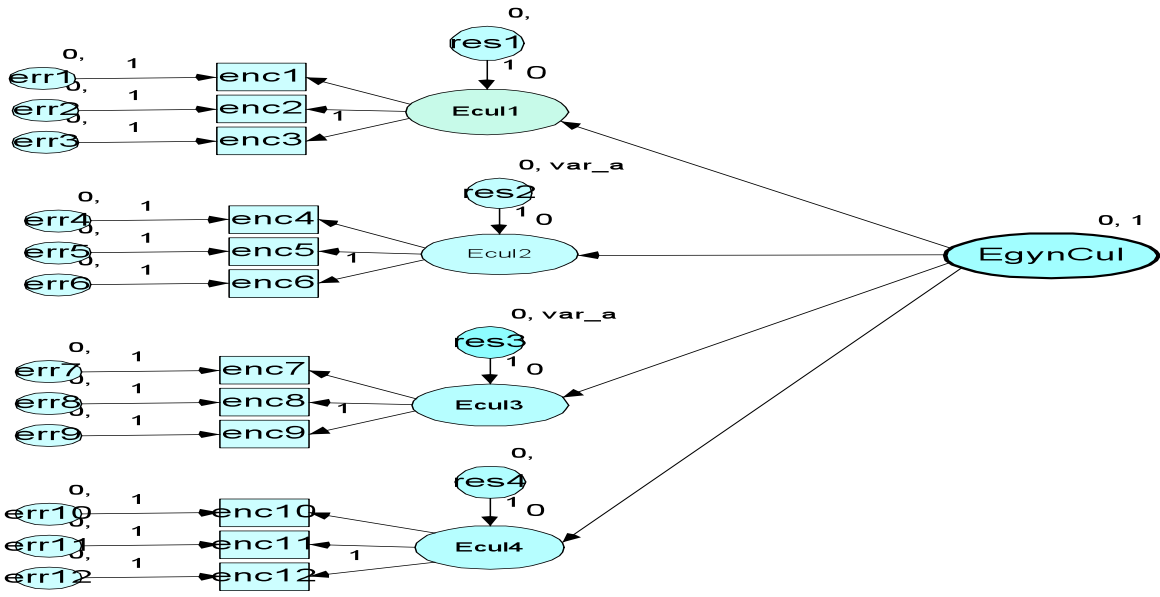


Figure (3) Confirmatory Factor analysis Of Egyptian National Culture's Dimensions (Second Order)

	SL1	SL2	SL3	SL4	SL5	SL6	SL7	SL8	SL9	SU1	SU2	SU3	SU4	SU5	SU6	FP1	FP2	FP3
SL1	1.0000																	
SL2	0.7512	1.0000																
SL3	0.6907	0.5907	1.0000															
SL4	0.6002	0.5170	0.7005	1.0000														
SL5	0.6038	0.4476	0.5535	0.5314	1.0000													
SL6	0.4645	0.4214	0.4655	0.5200	0.6275	1.0000												
SL7	0.4785	0.3786	0.3977	0.4702	0.4855	0.7308	1.0000											
SL8	0.5709	0.5332	0.5938	0.5662	0.5934	0.6430	0.6512	1.0000										
SL9	0.6074	0.5914	0.7079	0.6022	0.5866	0.5487	0.5224	0.6265	1.0000									
SU1	0.6560	0.6223	0.6587	0.5464	0.6038	0.4891	0.4633	0.5969	0.7228	1.0000								
SU2	0.5430	0.5185	0.5635	0.5881	0.5982	0.6334	0.4834	0.5583	0.6512	0.5671	1.0000							
SU3	0.5537	0.4739	0.5978	0.5555	0.5662	0.5729	0.5210	0.6594	0.6549	0.5937	0.6764	1.0000						
SU4	0.6511	0.5616	0.6113	0.6032	0.6015	0.6173	0.5565	0.6204	0.6545	0.6058	0.7737	0.7530	1.0000					
SU5	0.3262	0.3382	0.3241	0.1954	0.2621	0.2036	0.1132	0.2719	0.2815	0.3633	0.2338	0.2034	0.2632	1.0000				
SU6	0.3563	0.3406	0.3925	0.3482	0.2060	0.3226	0.2845	0.4161	0.2979	0.4146	0.3089	0.3546	0.3505	0.4737	1.0000			
FP1	0.2863	0.3167	0.2920	0.2703	0.1605	0.1775	0.1744	0.2393	0.2858	0.3942	0.2301	0.2137	0.3386	0.6097	0.4968	1.0000		
FP2	0.3008	0.2571	0.3785	0.3555	0.2747	0.2295	0.1009	0.3022	0.3180	0.3836	0.2994	0.2624	0.3433	0.3439	0.4890	0.6272	1.0000	
FP3	0.3008	0.2178	0.3456	0.3435	0.2348	0.2114	0.2875	0.1239	0.3212	0.2399	0.2836	0.1994	0.1624	0.2533	0.2569	0.3450	0.5732	1.0000
Mean	2.99	2.91	3.20	3.29	3.69	4.06	3.88	3.52	3.53	3.20	3.65	3.60	3.56	3.49	3.48	3.60	3.49	3.24
SD	0.73	0.79	0.87	0.76	0.83	0.78	0.69	0.80	0.83	0.93	0.73	0.77	0.82	0.77	0.79	0.82	0.79	0.78
Violations Number	0	0	1	0	6	4	4	2	0	0	0	0	1	0	0	0	0	0

Table 4: Item correlation matrix, descriptive statistics and discriminate validity test (large scale)

CONCLUSION

What factors influence the dynamics of strategic Leadership styles and thus result in shared understanding values and financial gains? With the latest Egyptian banking sector reforms began in 2004 in hopes of strengthening the sector and increasing its robustness to be able to face global and regional competition and to act as a base and infrastructure for the overall economic reforms, there has been corresponding proliferation of research. Managing banking mergers and acquisition that leads to creates new paradigm of styles that leaders should have to keep having financial gains and a better post- financial performance, which is a complex and persistent challenge.

There is a need for a more in-depth understanding. In light of the endeavors, this research contends that designing better services needs to consider elements of strategic leadership styles , shared understanding values , and financial performance.

The main finding of this research is that employees are a critical element to enhance strategic leadership. It is a hard task to manage shared understanding value directly, consistently, and reliably as banking services have the characteristics of intangibility, perish ability, and simultaneous production, delivery, and consumption (Hays and Hill, 2001).

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THE INFLUENCE OF HISTORIC, GEOGRAPHIC AND CULTURAL FACTORS AS AN IMPORTANT EXPLANATION FOR CORPORATIVE CULTURE AND ECONOMIC DEVELOPMENT: A COMPARISON BETWEEN LATIN AMERICA AND THE UNITED STATES.

Paulo Roberto Feldmann

University of São Paulo- Business and Economics School - Brazil

ABSTRACT

The text deals with the influence of history, geography and cultural factors on economic development focusing on how companies are managed. The emphasis of the paper is Latin America. After a summary about the history of the region, regarding the economic aspects, the text attempts to analyze some habits and customs of Latin Americans and explains how they influence the enterprises and the way they are managed. The objective is to demonstrate how the capacity to manage institutions and corporations, public or private, is affected by cultural factors and the reason why this ends up having an enormous impact on the degree of economic advance in the respective countries. In order to get these explanations, the article mentions many different authors that have made comparisons with other regions in the world. Special attention is dedicated to a comparison between Latin America and the United States from the point of view of Corporate Culture.

KEYWORDS: National Culture, Corporative Culture, Management, Latin America, Innovation

INTRODUCTION

During the last few years, the theme “cultural diversity” has attracted considerable attention. The reason for this is that the global market extends to several hundred countries and many different cultures. Thus, the large international companies perceive that, in order to effectively operate in the numerous diverse countries, it is fundamental to recognize that it might be necessary to perform differently in each of these.

The objective of this article is to demonstrate how the capacity to manage institutions and corporations, public or private, is affected by cultural factors and the reason why this ends up having an enormous impact on the degree of economic advance in the respective countries.

The question orienting this article is: Is there a Latin American way of managing businesses? Or, in other words, is there a Latin American way to manage a business that is so clearly different from the North-American way of managing businesses?

As we will later see, we can conclude that yes, there is. Based on the classical book by Michael Porter, “The Competitive Advantage of Nations” (“A Vantagem Competitiva das Nações”- Porter, 1993, p.126), supported by his extensive research which included companies originating in 15 countries, it has been determined that domestic circumstances affect the manner by which companies are directed and that each nation has its unique characteristics in managing their respective companies. Unfortunately, none of the 15 countries studied by Porter were located in Latin America.

This article proposes to establish how some typical characteristics of the manner in which Latin American companies are managed are related to the geographic and cultural aspects that affect the region. The objective of this is to contribute to the analyses explaining the reasons for the slowdown of economic development on the continent, indicating the absence of greater discussion about the questions that involve productivity and corporate management in the region and, principally, the differences that exist in managing corporations between Latin Americans and North-Americans.

With this article we intend to demonstrate that the culture of a people is a vital component in defining the capacity of a nation to prosper as this formats the individual's thoughts regarding risks, rewards, opportunities and, consequently, regarding progress.

PROBLEM DESCRIPTION

Since Max Weber (1930) it has been heard that culture weighs on, determines, tends towards and ends up determining which nations prosper and which are condemned to poverty, as long as their populations do not alter their habits, beliefs and values. Weber affirmed that the Protestant ethic was responsible for the fact that Germany and Switzerland experienced much greater economic success than did the Catholic counties such as Spain and Portugal in the XIX century.

More recently, Lawrence Harrison (2000) placed the peoples' values and attitudes as the principal factors responsible for the phenomena of persistent instability and inequality in Latin America.

David Landes (Landes, 1998, p 13) likewise a renowned specialist in "Economic History" stated that if there is anything to learn about a nation's economic development it is that culture makes a difference. It is undeniable that History and Geography play an enormous role in the culture of a people. In turn, culture and, consequently, uses and customs affect economy and, notwithstanding, can not be modified by decree or government policy and must, therefore, be more profoundly understood.

A nation's History defines values that have perpetuated for generations and resulted in determining the behavior of its citizens. In other words, it is because of these values that the individuals are willing to assume greater or lesser risks, feel more or less patriotic, are willing or not to share profits, and so forth. The geographic location also impacts a people's habits and customs and, therefore, their level of economic progress.

Jeffrey Sachs (Sachs in Harrison & Huntigton, 2000, p 31-32), currently one of the most frequently cited economists, states that Geography is of such importance that social scientists should dedicate more time looking at maps to better understand the roots of economic development.

THE LATIN-AMERICAN CONTEXT

With an enormous variety of political cultures and socio-economic structures, Latin America extends from Rio Grande to Antarctica, occupying a land area of more than 18 million square kilometers that are inhabited by more than half-a-billion people. The 33 countries of the region, despite having problems and aspects that differ one from the other, they do have many similar economic challenges. As such, the 200 million living in the region that are considered poor are present in all of the countries, as is the enormous social inequality. Corruption is endemic in the region. The economic history of the countries in Latin America is shared entirely, from the substitution of importations in the 60's and 70's, to the increasing inflation of the 80's and decreasing in the 90's to the solution given for foreign debts, all of the questions are more or less common to all of the countries and, generally, had occurred around the same time.

Notwithstanding, Latin America is far from constituting a homogeneous group of sub-developed States. The colonial economic structures and the forms of integration to the international market after each nation's independence generate important differences among them. Therefore, we can say that four countries; Argentina, Brazil, Chile e Mexico- had achieved important industrial advances not obtained by the other countries that had left these latter very dependent on elementary economic structures.

What truly characterizes all of the countries that compose Latin America and which makes them different from North America is their historic formation, in other words, the type of colonization to which they had been submitted, beginning in the XVI century, by the European powers of that time. Whereas in Canada and the United States there was a prevalence of what we call colonial settlements, in Latin America there was a predominance of colonial exploitation. In these, the objective was to serve the economic interests of the parent-state, in the case of Portugal and Spain. The wealth and the well-being of the colonized people were of little importance. What was imperious was the wealth of the parent-state. While, in the colonial settlements, the objectives were others; the colonizers came to the new land in search of a new fatherland and not to be enriched. For this reason, in Canada as well as in a good part of the United States, the colonization was neither achieved with the hand of slave labor nor to produce low cost basic commodities. But, it happened, due to the enormous

masses of Europeans who left their continent because of conflicts and the religious wars at that time, they came to North America devoid of any mercantile interests.

The type of colonization applied to Latin America, exploitative and mercantilist, had left profound scars in the society that have remained until today. As such, for example, the need to speed up and make contacts with the Court more flexible resulted in the population always trying to be close to the coastal towns and the ports that accessed the parent-state; or, using the best soil to cultivate agricultural commodities for exportation, while the worst would be used to produce the foods that was consumed by the local population. Also resulting from that time, the nations of the region acquired the characteristic of exporting their raw material and importing the manufactured products from the parent-state.

Another legacy of colonization that occurred in Latin America was the enormous concentration of rural land in the hands of very few property owners, characterizing the well-known “landed estates”, which is a registered trademark of the region, generating a chronic lack of alimentary commodities while, at the same time, millions of farming families had no land to cultivate. According to Hobsbawn (1999, p. 38) “It is very difficult to conceive that the impressive social inequality in Latin America could have no relation with the also impressive absence of a systematic agrarian reform in its countries.”

BIBLIOGRAPHIC REVIEW

More than 40 years ago, when he analyzed the economies of the Asiatic countries, Myrdal (Myrdal, 1968, p.104) concluded that the cultural factors profoundly influenced by the region were the main obstacles to modernizing that part of the world.

Fleury (1997, p.95 and 107) calls attention to the fact that the highly-praised Japanese and Korean models of management stem from specific historical traits of these two nations. One of these traits common to both nations is that of a strong national identity, and another is the historic rivalry between the two countries which resulted in the fierce economic competition between both.

Michael Porter (1993) concluded that there is no universally adequate administrative system, as the successful sectors of each country will be those in which the administrative organization and practices are adjusted and adequate to the sources of competitive advantage for that sector. In other words, administrative practices vary from country to country.

When speaking of the United States, Porter indicates the competition and intense rivalry existing among the companies in this country as one of the most outstanding aspects. According to him, this intense competition results in these companies mutually pressuring one-another for the progress of all. Even the North-American laws, such as the Anti-trust law, for example, reflect a national consensus in favor of competition.

However, it is not only this aspect that characterizes a type of paternalism, as defined by Lindsay & Fairbanks (Fairbanks e Lindsay 2000, p. 132-136): “The Latin American businessmen frequently choose to allow the government to make highly-complex decisions which refer to their own businesses. It is common practice for lobbies and business associations to pressure public officials in order to obtain protective tariff rates to block the entrance of imported products or favorable conditions in the exportation of products, including even exchange rate devaluation.”

Lindsay & Fairbanks emphasize that the relationship between government and businessmen is a fact of enormous importance in the region, and it is very common for public officials to be manipulated in order that determinate companies or sectors obtain competitive advantage, which, generally, end up being ephemeral.

The fact of always being able to put the blame on others is such an important Latin-American trait that it was even mentioned by Landes (Landes in Harrison & Huntington, 2000, p.4-6) upon ironically commenting that the most successful export from the region, in terms of economic doctrine, was the famous “Theory of Dependence”, in which the theoretical exponent is the, then, sociologist Fernando Henrique Cardoso. Said theory attributed the roots of Latin-American problems to the most advanced countries of North America and Europe. According to Landes, he states: “Upon instigating a pathological propensity to attribute blame to all others except to the one or ones denouncing, these doctrines promote economic impotence. Even if they were true, it would be better to retire them.”

Lastly, we should highlight the presence of the State in Latin America. Fukuyama (Fukuyama, 1996, p. 52), upon mentioning the three societies where the State has a greater influence, and excluding all the socialist countries, he cites France, Mexico and Brazil and makes it a point to emphasize that even in Japan, a country with a very strong government presence, the involvement of the government was always very limited if compared to the three countries, two of which are leaders in Latin America, in terms of economic power.

Other important authors have dedicated themselves to examine the relationship between state and entrepreneurs in Latin America. One of the most important tests of the "spirit" in Latin America was made by Carlos Alberto Montaner in the chapter that he wrote the book "Culture Matters", edited by Lawrence Harrison & Samuel Huntington (2000). Montaner describes how the elites behave in Latin America and focuses especially on the role and mode of action of entrepreneurs. He said one important characteristic of entrepreneurs in the region is their preference for exercising political influence rather than compete in the marketplace. Seeking government support is another feature that predominates in the typical Latin American business. Entrepreneurs and executives from major industry sectors lost in meetings with ministers and officials valuable time that could be better spent if they devoted themselves to seek the effective increase in the productivity of their companies.

This political influence is most often achieved by means unethical and Montaner says that it is very easy for the entrepreneurs to find civil servants that get tariff exemptions or loans at subsidized interest rates or concede market reserves. All these advantages are always very ephemeral and they fail to provide effective and competitive advantages in order to get productive enterprises. Montaner stressed that corruption is not exclusive to Latin America but stresses that the frequency with which it occurs in this region, and especially the impunity are of serious concern because their societies do not seem to realize how much these facts turn out to raise the prices of goods and services they they acquire and consume.

COMPARING LATIN AMERICA TO THE UNITED STATES

It is opportune to compare Latin America with the United States to understand the reasons for some very important behavioral differences, including why the colonization of Latin America and that country were so completely different. There is a philosophical posture that clearly demonstrates the big difference in the Latin-American way and the North-American way to manage companies. Certainly, the alterations are linked to the historic role that the companies had in the economic development in the two regions. While in the United States, the companies and businessmen assumed a predominant role even during the process of territorial acquisition and integration, in the XVIII and XIX centuries, as seen by the grand railways, almost all privatized, in Latin America, all colonization, territorial acquisition and integration in the principal countries, occurred under the aegis of the State, with the private initiative being totally absent.

In other words, we could say that, if the United States had been colonized by Spain or Portugal, this internalization would have been totally conducted, implanted and operated by the government. Some rare cases of entrepreneurial businessmen, such as the Baron of Mauá (Fausto 2006, p211-213), in Brazil, were treated in a hostile manner by the other businessmen at the time and were even boycotted by the Empire. This posture began in the XVIII century by the initiative of the Crowns of Spain and Portugal and continued intact after the political independence of the various nations.

One of the most characteristic and, likewise, one of the most problematic features is the fact that almost the totality of the large Latin American companies have their controlling stock in the hands of one individual or, when many, in the hands of one or two families. This results in a relaxation of the controls related to results and the absence of management professionalization, in other words, the stockholders frequently do not cover results because they themselves are the executives. It is common for the owners of the companies to not clearly separate the limits between the company and the family.

Contrary to that which happens in the USA, where the capital of a large company is much more pulverized and the minority stockholders apply great pressure, demanding consistent results. In the Latin-American companies, it is difficult to find a separation between the Board of Directors and the Managing Director. While, in a good part of the North-American companies it is very difficult to discover who the owner of these same are, such is the pulverization of the stocks, in the Latin-American companies there is practically always an owner, and is always well-known.

The mentality of “company owner” has the result that, at times, instead of taking their profits from distributed dividends they prefer to take them via indirect earnings, for example, setting up personal corporations that are suppliers of the principal group. Therefore, it is common that the cost of transference of services among companies of the same group is determined by a group of individuals that are controlling stockholders of the group’s holding company which, at the least, distorts the profitability of the business. Such facts end up being equally negative to the development of the stock market, being that the minority stockholder, generally, receives very little protection. It is interesting to note that, even in the North-American way of managing companies, with a strong influence of the minority stockholder, there are situations which escape control and are transformed into a nightmare for all, as we have seen in the recent sub-prime crisis.

Mixing business with friendship is common in Latin America. The contract, at times, is not as important as the committed word. While in the United States there is the cult of lawyers, everything focuses on contracts, in Latin America there is the cult of “personality”, in other words, everything depends on whom you are doing business with. As such, in Latin America, a contract does not have the same significance as it does in the United States. In fact, for Latin-Americans in general, personal relationships are of extreme importance.

Continuing to compare to United States it is important to note that in this country there is the “culture of the winner” . In North America society everybody wants to win . Much more than in other societies and in sharp contrast to the Latin America society ,in United States the personal and professional success is valued as the greatest goal in life of any individual . The worst blame you can accuse a north-american citizen is that he is a loser . This culture does not exist in Latin America , by the contrary , success often gives rise to suspicion and distrust.

Perhaps the principal characteristic of Latin behavior affecting the way the region’s companies are managed is that which has to do with the extensive networks of personal relationships. Contrary to North-Americans, the Latin Americans have a negative view of individual competition, but give enormous importance to the social groups of which they are a part. There is a current phrase that says Americans do business and then, if possible, make friends; while the Latin Americans first verify if they are friends to then do business afterward.

If there is a notable Latin American trait, it is the ever-present need of a superior leadership to make important decisions. Perhaps this is why almost all of the countries of the region have presidential regimes while the parliamentary regime, found in developed countries, with the exception of the USA, did not take root in the region. The search for an answer to everything through an authoritarian leader is something that has pervaded history in practically all of the Latin American countries. This is probably why management decisions are frequently taken by one person in a central and decisive manner.

IMPACT ON ECONOMIC DEVELOPMENT

One of our objectives with this article is to demonstrate that not all that is said with respect to a nation’s economic development can be explained by traditional economic theory. There are numerous factors that are not part of the economist’s habitual tooling and which have a decisive influence about the economic backwardness or advance of a country. We have seen that the History of a nation defines values that perpetuate for generations and end up defining the behavior of its citizens. In other words, it is because of these values that individuals will be willing to assume greater or lesser risks, will be more or less patriotic, will be willing or not to share profits, and so forth. The geographic location also has an impact on the habits and customs of a people and, therefore, on the level of economic progress.

Latin America comprises 9% of the world population, while responding for only 5 % of the global GDP. And, perhaps even worse than this, among the 1000 largest international companies, approximately 25 of these are Latin American, or if you will, merely 2.5%. Why are there so few companies from this side of the world that have achieved any international projection? Is it an economic structural problem? There has already been much analysis of the economy of Latin America and all its countries, from a structural point of view and, principally, from a macroeconomic point of view, but rarely have there been attempts to explain the backwardness of this continent from the point of view of its companies and the manner in which they are administered.

Perhaps because of the fact that, in the past, almost all of the countries in Latin America had lived with very high rates of inflation, it is interesting that nowadays, the debate about economic growth is always under the background of reduced inflationary rates and is almost always centered on three themes: devaluation of the currency to stimulate exports; reduction of interest rates; and cuts in government spending. They are all very important macroeconomic themes, however very little has been discussed, for example, regarding the low efficiency of Latin companies as being a factor that is also responsible for the backwardness of the region; almost nothing is said about the little technological production of the companies of the region; and rarely is their

discussion about the value chains where these Latin American companies perform. These are all themes that are linked to the way in which the companies are managed.

Fairbanks & Lindsay (2000) upon analyzing the reasons for the backwardness of the Latin American countries are clear: "What has been most difficult for the Latin American leaders and, in reality, for a great part of the leadership in developing economies, is to perceive that in order to improve the perspective of the domestic companies their governments need to master the details as to how the successful global companies create competitive options, strategic options, in an era of global markets and information technologies that are network interlinked.. Now, the leaders need to learn complex strategy and option theories on an entrepreneurial level, as well as the new microeconomic theories indicated for a new economy; they need to learn the manner in which the wealth generation chains are, in fact, formed and how global companies opt to participate in them.

After all, a country can not be competitive if the companies are not productive. .

IMPACT ON TECHNOLOGY DEVELOPMENT

The abundance of natural resources in Latin America has been identified as an important explanation for low concern about the innovation that prevails in the region. Fairbanks & Lindsay (2000) found that local businesses tend to wrongly assume that the advantages in natural resources, abundant raw materials and cheap labor, will provide them with leadership positions in export markets and thus fail to create conditions for innovation

Adopting this philosophy, Latin American countries are constantly overtaken by countries in Asia or Africa. These countries often can further cheapen the cost of its workforce, or entering the international market by selling a natural resource at a price even lower than had been practiced by Latin American . Moreover, Lindsay & Fairbanks (2000) point another important reason for the lack of innovation: It is the poor cooperation between the companies. They say that there is no culture of cooperation among enterprises in the region. Unlike countries like Italy, where the existence of clusters, promote cooperation and encourage companies, for example, to jointly pursue foreign markets, or launch a new brand, or jointly invest in R & D-Research & Development. But Latin American entrepreneurs , almost invariably, only see the competitors as an enemy that should be eliminated.

This contribute to a climate of distrust within each sector that always annihilated any possibility of cooperation. Constitute notable exceptions to the automakers and its relationships with suppliers of auto parts in Argentina, like Brazil or Mexico. But this deviation from the rule, probably due to the fact that these are industries where there is the predominance of foreign capital companies .

This lack of business cooperation also explains the small number of clusters in the region and reaffirm as Fairbanks and Lindsay (2000): "... we noticed a profound lack of clusters of related industries or support, and a corresponding lack of innovation: companies not cooperate are not able to learn from each other"

FINAL CONSIDERATIONS

Thus, we hope to have answered our initial question, if there is a Latin American way of managing businesses and if it is different from the North-American way? It seems clear that all of these geographic, historic and cultural aspects result in affecting and molding the way business is managed in each of these two regions.

The Latin-American countries come from a society of aristocratic and oligarchic formation. This society was always centered on the wealthiest classes whose families, of patriarchal foundations, were responsible for the emergence of the first important companies of the region. It is natural that the way these companies were organized would be similar to the way people in families relate to one-another. On the other hand, for many centuries, agricultural activity was the only economic activity, the result of which was that the feudal system predominant in the fields ended up deeply rooted in the Latin-American culture.

The lack of professionalization of the companies can be another important explanation for the small number of world-class Latin-American companies. Lastly, family and friendships are among the greatest values of all the people of Latin America. Knowing the people involved is part of every business transaction and familial or personal links or friendship can easily cross the corporate hierarchical divisions. Nonetheless, to survive and be efficient in the international market, Latin-American companies must be administered as professionally as

possible and globalization tends to more negatively affect the companies that are managed by families than those that are not.

Latin America is very rich in natural resources and in general labor is cheap. These are the main ingredients which encouraged large firms originating in the region, with rare exceptions. Because of these factors, this continent boasts some powerful companies, but almost always at work in sectors that were important in the nineteenth century, but no longer relevant in this century. Being a global player in industries such as beverages, cement, mining, agriculture, fishing or steel is not all bad, but not enough. Nowadays the more advanced countries have companies in sectors that now dominate the world economy as telecommunications, software, hardware, medical equipment or pharmaceutical industry. In other words, we can say that even the big Latin American companies in general are out of high-tech sectors, with rare exceptions such as the Brazilian Embraer. Companies in Latin America sometimes can scale and projection for operating in the global world but almost always they are in low-technology industries and in most cases producing commodities. The Brazilian Petrobras and the Mexican Cemex are prime examples.

In finalizing, family management, lack of professionalism, paternalism, manipulation of politicians, defensive and non-ethical attitudes are some of the main ingredients that foster the companies of the region, with rare exceptions. This style of administration does not benefit the demands of global competition in the XXI century. The large global companies and, especially, the North-Americans that dominate the international competitive scenario are professional, transparent, non-dependent on governmental favors and, in many cases, their stockholders are not known, in other words, they do not have an “owner”.

We hope to have demonstrated the standard of cultural behavior of Latin-American businessmen and executives. This could help those of the region that are currently involved in the process of internationalizing their companies. But, it is also important for those that are outside of Latin America. Knowing the unique characteristics of the Latin Americans, the international companies working on this continent can chart their performance better and have a greater understanding of that which could affect the management of their companies in this region.

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ETHICS AND SOCIAL RESPONSIBILITY

DEVELOPING HYPERNORMS FOR CORPORATE CODES OF ETHICS

**Timo Herold,
University of Ulm**

**Christopher Stehr,
Karlshochschule International University, Germany**

ABSTRACT

With regard to the economic globalization, there are no obligatory rules at the global level. The problem for a company is determining which norms and values the company should follow. Should it comply with norms of the country of origin or with norms of the host country?

In this paper, norms will be developed and justified. For this reason, international regulations such as the human rights or the labor standards of the International Labor Organization (ILO) will be consulted. Norms for global corporate ethics will be derived from these codes. To verify and falsify respectively the established norms, the method of expert interviews is used. The interview partners are experts in the fields of religion, culture and persons from non-governmental organizations and company representatives.

Keywords: *business ethics, code of ethics, hypernorm, international standards, multinational corporations*

INTRODUCTION

Business ethics has become a focus of corporate management's attention in recent years. This is caused on the one hand by public pressure and on the other hand by a change of the strategy of the companies to respond to this pressure (Usrey, 2007). Both were activated by a public notice of scandals, like corruption or a violation of working or environmental standards (Zelizer, 2007 and Boatright, 2007). In light of such incidents, companies are compelled to deal with ethical questions just in the same way they do with their well-known business strategic questions (Déniz-Déniz, Garcia-Falcón, 2002).

In times of economic and entrepreneurial globalization, companies do not act nationally but internationally or globally. Thus, an adjustment of the corporate ethics to an international or global framework is necessary.

The globalization of companies is a challenge for corporate ethics. There are no compulsory laws at the global level because of an asymmetric development of the political and economical processes of globalization (Stiglitz, 2006). The companies cannot align their behavior to a global valid framework of norms and laws (Chan, 2007). There are no obligatory rules on global level to which a company could comply. Only some rudiments like the OECD guidelines for multinational corporations exist.

On the other side, national legislation is losing its influence on companies. If a company is acting on global level it is possible for the company to choose the system of laws which are best for the company.

The managers of these firms have to decide to which norms and values they want to conform in their daily work (Abländer, Brink, 2008). This decision meets the areas of external legitimating of the companies behavior and the internal coordination of the employee's behavior. Figure 1 shows that the deficient international law and the loss of influence of national law lead to the necessity of a voluntary self-commitment.

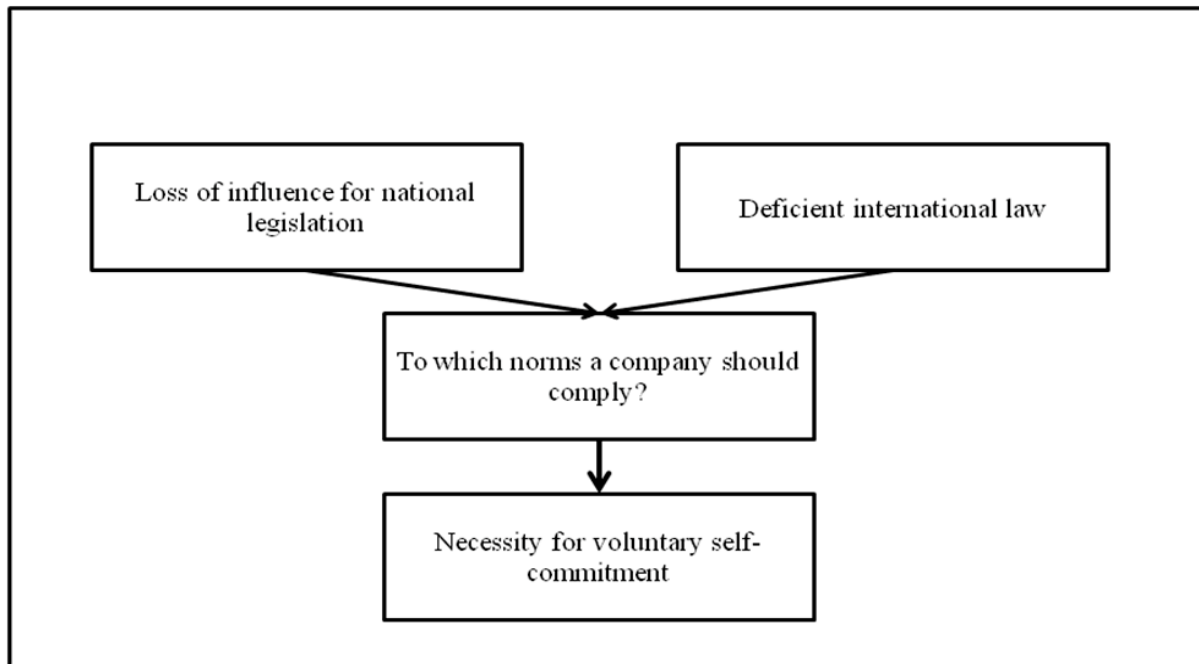


Figure 1: Necessity for voluntary self-commitment (own drawing)

Developing norms for a corporate code of ethics is the central goal of this research. These norms should take the challenges of entrepreneurial globalization into account. They should be applicable at the global level for companies. Do such norms exist? This is one of the central questions of this research.

In theory, such norms are called hypernorms. To find such hypernorms for business is necessary to develop a global code of ethics for companies. Linked to this are the questions: what are hypernorms and how can they be identified?

Based upon the theory of hypernorms by Thomas Donaldson and Thomas Dunfee (1999) this article presents a process for developing such norms. In the following step the process is used to point out hypernorms.

In a further step this article shows a code of ethics consisting of the norms which are derived from the process. This code of ethics can be a base for international or global companies to develop their own code.

METHOD

According to Donaldson and Dunfee (1999), hypernorms can be identified by a conformance of a norm with two criteria of a catalog, posted by these two researchers.

With regard to this theory, the method for the article was developed. In a first step, norms are derived from existing guidelines for companies at the international level. Examples for such guidelines are the 'guidelines for multinational corporations' of the organization for economic cooperation and development (OECD) or the Social Accountability 8000 standard (SA 8000), a standard developed and audited by a civil society organization. Figure 2 shows a compilation of all guidelines used. In the figure the guidelines are divided in those from governmental organizations like the UN or the OECD and in those of non-governmental organizations (NGOs).

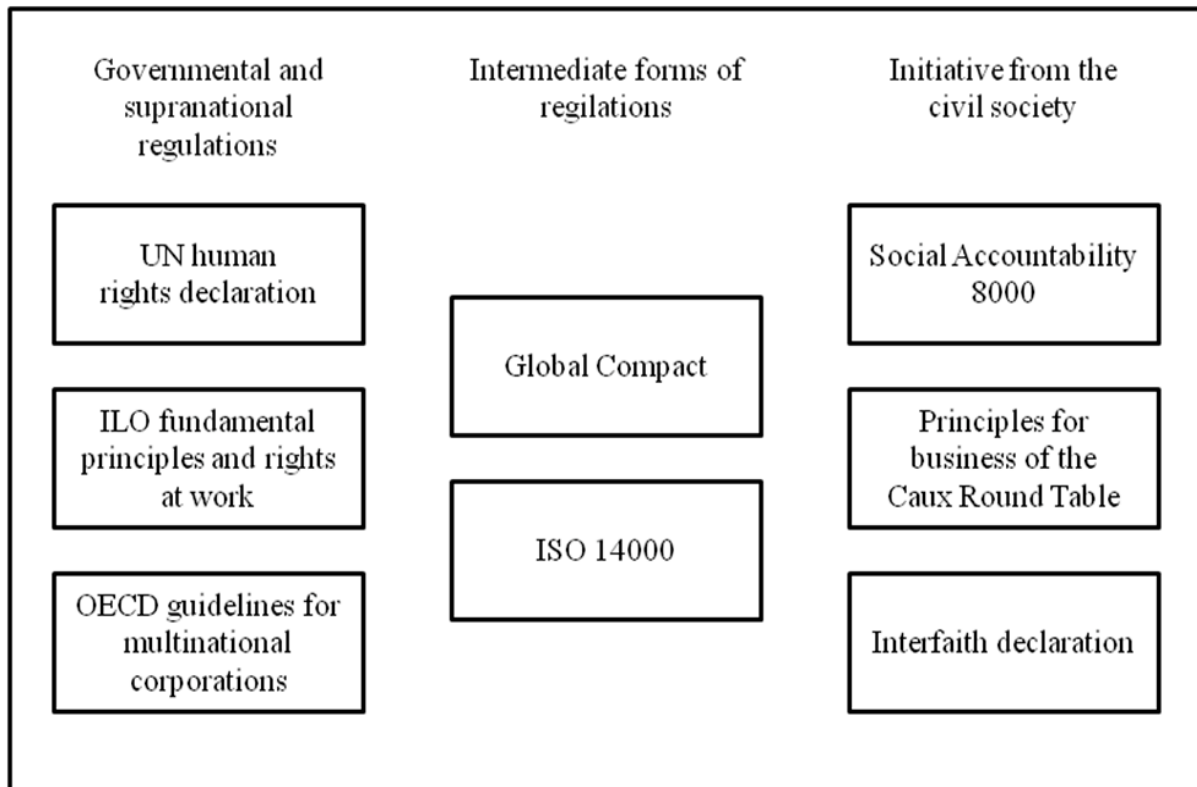


Figure 2: Sources for hypernorms (own drawing)

In a second step, the evolved provisional catalog of norms is verified by interviews. For this purpose, the method of structured interviews is adopted. The interviews were done with a questionnaire and administrated via phone.

The sample of interview partners is also caused by the theory of Donaldson and Dunfee. The interview partners are from the fields of religion, business and civil society. Overall, 13 persons were interviewed.

The interview partners were informed about each norm and asked about their accordance to the norm. They could evaluate the norms on a scale from one to ten. One in this case means 'full rejection' and ten means 'full acceptance'.

The results of the interviews were analyzed with Microsoft Excel. The answers are recorded in an Excel-Sheet. A norm was excluded by three categories. First, a norm cannot be a hypernorm if the arithmetic mean is less than eight. Second, a norm cannot be a hypernorm if two of the interview partners point their degree of acceptance with a five or lower or third, if one interview partner points his or her degree of acceptance with three or lower. This acts on the assumption that a low evaluation does not fit with a universal acceptance of a norm.

GLOBALIZATION AND ETHICAL NORMS

Possible strategies

In the process of entrepreneurial globalization a company has to make a decision to which ethical norms it would comply (Rothlin, 2006). There is an intercultural challenge because of a discrepancy in the system of ethical norms in different societies, caused by different cultural and religious traditions (Gurbaxani, Frühbauer, 2001).

For determining ethical norms in an international or intercultural context three possible strategies can be distinct, ethnocentrism, relativism and universalism.

In an ethnocentric view the ethical norms and values of one's own culture or society are superior to those of another culture or society (Messick, Bazerman, 1996). Accordingly, one's own moral conception could be transferred to the other culture without any problems (Schmid, 1996). The ethical norms of one's own culture

have an absolute validity in every other culture (Schäfers, 2004). The consequence for a company is that it had to follow the ethical norms of its country of origin. This can cause problems in the host country because the employees of the host country are in conflict with their local ethical norms.

The theory of relativism says that there is no preference for different systems of ethical norms. Two contradictory norms are on the same level and neither of them can be judged as ethically right or wrong (Hofstede, 2006). Because there are no criteria for judging a norm, a company has to follow the norms which are valid in the country the company operates (Beauchamp, Bowie 2001 and Kreikebaum et al. 2001). If local and home country norms conflict, the company should follow the local norms. For a company this can cause problems because of different expectations of the global stakeholders.

In the theory of universalism a system of ethical norms for all humans exists, independent from cultural or religious traditions. Respectively, universalistic norms are autonomous from time and space (Nill, 1994). The validity is not limited by national or cultural borders.

Hypernorms

The term hypernorm was coined by Donaldson and Dunfee (1994 and 1994). A hypernorm can be defined as a fundamental moral rule for all humans. Hypernorms are reflected in the religious, philosophical and cultural beliefs (Donaldson, Dunfee, 1994). They are those norms which are concretized in the respective social and cultural context and become manifested in the community (De George, 2006). The common validity of hypernorms is assumed (Donaldson, Dunfee 1995) and “hypernorms take precedence over the local norms.” (Spicer et al., 2004)

Because this research is based on the concept of hypernorms by Donaldson and Dunfee their theory is discussed deeper in this section. Hypernorms play an important role in the ‘Integrated Social Contracts Theory’ (ISCT). The concept of hypernorms limits relativism. At the same time, hypernorms are not exclusive because they take into account that there can be a difference in the cultural specification. Not every ethical norm can be traced back to a hypernorm and not all existing differences in the system of ethical norms are caused by a different cultural, religious or philosophical imprint (Dunfee, 2006). Therefore, hypernorms are a concept between the conflict of relativism and universalism. “ISCT avoids the extremes of either position by recognizing the dynamic relationships among the authentic ethical norms of diverse communities, bounded in turn by universal principles.” (Donaldson, Dunfee, 1999) Those universal principles are called hypernorms which are key limits on moral free space.

In ISCT they distinguish hypernorms in three categories, procedural, structural and substantive hypernorms. Procedural hypernorms are defined as “conditions essential to support consent in microsocial contracts” (Donaldson, Dunfee 1999). Second, structural hypernorms are necessary for political and social organization. They are principles that establish essential background institutions in society. The final category is substantive hypernorms. This substantive hypernorms are fundamental concepts of the right and the good. The substantive hypernorms are those hypernorms that apply to economic activity. (Donaldson, Dunfee, 1999). For this reason, the hypernorms mentioned and developed in this article are substantive hypernorms. Every time when the term hypernorm is used it refers to the definition of substantive hypernorms by Donaldson and Dunfee.

In their book “Ties that bind” Donaldson and Dunfee provide some norms that they have identified as hypernorms. They give examples for international bribery, gender discrimination, market research and workplace safety. The only claim that there are substantive hypernorms concerning those points but they don’t provide a formulation of such a hypernorm.

CORPORATE CODES OF ETHICS

Definition

Codes are the most popular measure to institutionalize ethical principals in business (Talaular, 2006). A code is a catalog of norms, which are binding standards for human behavior (Kunze, 2008). There are different names for codes of ethics in practice, such as corporate guidelines, business principles or codes of conduct. In this article the term code of ethics is used to summarize all its variable denotations.

The content of a code of ethics are the written business principles, ethical norms and values and rules of conduct of a company. It describes the responsibility for the internal and external stakeholders (Kunze, 2008). This content provides information about which behavior is thought of as ethically right or wrong in a company (Remisova, 2007 and Schwartz, 2004). In every case a code of ethics is a voluntary self-commitment (Kunze, 2008).

Besides corporate codes of ethics there are other codes of ethics in business, such as codes of branches or codes of profession. A code of branch is a self-commitment of a whole branch to follow specific ethical principles. Similarly, a code of profession describes the ethical guidelines of a profession like accountants (Ulrich et al., 1998).

The impact of codes

A code of ethics is addressed to different stakeholders. It regulates the relationship of a company to its employees, customers or suppliers. Other aspects such as environmental protection can be part of a corporate code of ethics as well (Kaptein, Schwarz, 2008).

If a code of ethics describes the desired behavior of the employees it can be considered as a guideline for behavior, which shows the employees what is thought of as ethically right or wrong. This guideline has an impact on the behavior of the employees if they accept the codified norms (Kunze, 2008). A code of ethics coordinates the individual activities in a company. As a result, the behavior of the employees is harmonized by a code of ethics (Talaucar, 2006). Therefore it is a part of the corporate culture, which also can be a source of information for new employees and help them to integrate into this corporate culture (Kunze, 2008).

A company can signalize its moral responsibility and define the range of the responsibility the company wants to take with a code of ethics (Kaptein, 2004). It is possible to name the ethical areas which seem to be important for the company (Talaucar, 2006).

In a global context, a code of ethics can help to complete the imperfect framework of regulations. In this context a company can strengthen its credibility and legitimate its activities and so generate trust from its stakeholders (Kreikebaum, 1996). The need to legitimate a company's activities is caused by the multifaceted ways companies are integrated in social communities and institutions and their dependence upon them (Logsdon, Wood, 2002). For this reason, companies strive to keep their social acceptance. Codes and linked ethical programs show the cognition of expectations of the society. Respectively, codes can legitimate the company's activities in a global environment (Weaver et al., 1999).

Challenges for a global corporate code of ethics

A corporate code of ethics is a part of the corporate culture. If a company wants to act internationally or globally with settlements in foreign countries, a company's own corporate culture will come into contact with the culture of the host country. The challenge at the global level for a code is the possible conflict between the codified norms and the ethical norms of the host country in which the code is transferred (Weaver, 2001). If the code is based on an ethnocentric view the code can cause problems with the employees of the host country. Either they do or do not accept the norms, but they have troubles with their conscience because of different cultural norms in their family. The codified norms should not be contradictory to the ethical norms in the host country.

A harmonization of the ethical corporate culture of the head office and the corporate culture of the settlements is possible only to a certain degree. A differentiation with respect to the host country's culture, grounded on a common base of ethical norms, can help to avoid a conflict. On the other side a desired harmonization effect is achievable by the common base, if the base is big enough (Jöstingmeier, 1994). Hypernorms can be a possible opportunity for a common base (Jackson, 1997). In an empirical study Spicer et al. (2004) show, that a hypernorm can be an orientation for managers when they are confronted with ethical decisions.

DEVELOPING HYPERNORMS FOR A CODE OF ETHICS

Donaldson and Dunfee say that there is evidence for norms to be hypernorms. If two or more of the indicators are fulfilled a hypernorm status is supported. For this purpose they posted the following list with eleven indicators for a hypernorm (Donaldson, Dunfee, 1999).

1. Widespread consensus that the principle is universal.
2. Component of well-known global industry standards.
3. Supported by prominent nongovernmental organizations such as the International Labour Organization or Transparency International.
4. Supported by regional government organizations such as the European Community, The OECD, or the Organization of American States.
5. Consistently referred to as a global ethical standard by international media.
6. Known to be consistent with precepts of major religions.
7. Supported by global business organizations such as the International Chamber of Commerce or the Caux Round Table.
8. Known to be consistent with precepts of major philosophies.
9. Generally supported by a relevant international community of professionals, e.g., accountants or environmental engineers.
10. Known to be consistent with findings concerning universal human values.
11. Supported by the laws of many different countries.

The empirical part is oriented on these indicators. With the study a minimum of two criteria should be fulfilled for each norm.

For this reason, the norms are derived from well-known industry standards (2) like the “SA 8000”, standards supported by regional government organizations (4) like the OECD “guidelines for multinational corporations” and standards supported by global business organizations (7) like the Caux Round Tables’ “principles for business”. Further the UN declaration of human rights is also used because it can be considered as universal (1 and 10).

To review the norms interviews are made with representatives from different religions (6), like Buddhism, Christianity, Hinduism, Islam, Judaism and Confucianism. Further the interviews are done with representatives from non-governmental organizations (NGO), like Transparency International or Amnesty International (3) and with representatives from companies (9).

With the design of the study the requirement to meet two of the criteria can be guaranteed. Figure 3 shows the process of developing a norm with regard to this requirement.

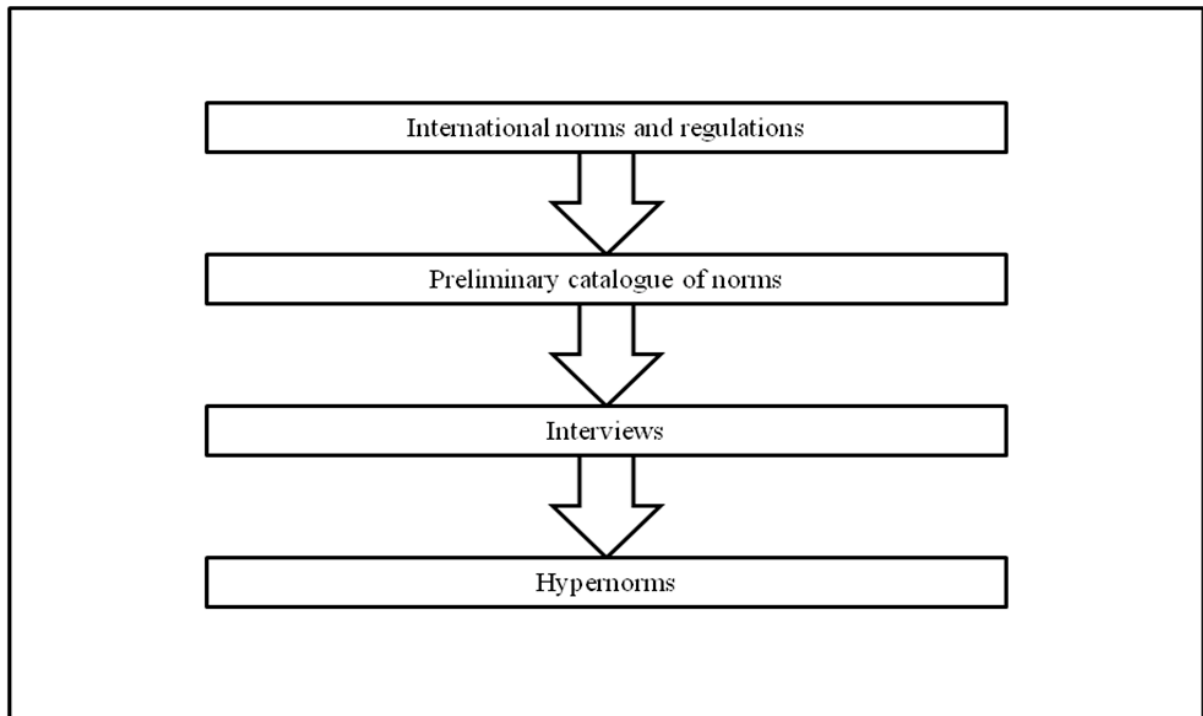


Figure 3: Process of developing a hypernorm (own drawing)

In a first step a catalogue of norms is derived out of the mentioned sources. This catalogue is proved by interviews with experts in the fields of religion and also with representatives from companies and NGOs. This approach is discussed more deeply in the method-section of this article.

RESULTS

By deriving norms out of the named standards it was possible to develop a preliminary catalogue of norms. This catalogue consisted of 35 norms. The norms described the responsibilities for the stakeholders of a company. In the first step the norms are separated in the following areas:

1. Responsibility for the employees
2. Responsibility for the costumers
3. Responsibility for the suppliers
4. Responsibility for the environment
5. Responsibility for the society

The reviewing of the norms with interviews leads to an exclusion of some norms. These norms are identified as inconsistent with the principles of religions, standards supported by NGOs or as not practicable for companies. In the end 16 norms could be identified as hypernorms with the definition given in this article. Some of the areas of responsibility are combined because in these areas only one or two norms are left. Following are the norms shown by their area of responsibility.

Responsibility for the employees

In the first interviews six norms could be developed as hypernorms for business.

1. A company must not put physical or psychological pressure on its employees. This means every type of physical punishment and physical or mental coercion.

2. A company has to provide conditions of work, which are not a danger for the health and security of its employees.
3. A company has to provide a remuneration, which makes it possible for its employees and their families to cover their basic need of food, clothing, accommodation and health care.
4. A company must not discriminate against its employees on the basis of race, color, gender or religious denomination
5. A company must not benefit from compulsory labor. Compulsory labor should be defined according to the ILO convention 39.
6. A company has to build a framework which makes it possible for its employees to act ethically, e.g. with a code of conduct.

Responsibility for customers and suppliers

The areas of responsibility for customers and suppliers are combined because of elimination of norms by interviews in these two areas. For this combined area a set of the following norms could be identified.

1. A company must provide its customers the quality and service agreed.
2. A company must provide all relevant information for the correct use of its products to its customers.
3. A company must commit itself not to conduct fraud or deception regarding the characteristics of its products.
4. A company must pay its suppliers according to the terms of price and date agreed.

Responsibility for environment and society

The two areas environment and society are combined to one area. In this combined area the following six norms are included.

1. A company has to commit itself to use as few natural resources as possible for its production. On the other side it has to recycle as many resources as possible.
2. A company has to review its business strategic decisions regarding possible environmental risks of its production process, products or services.
3. A company has to review its business strategic decision regarding its effects on the society where the company operates, e.g. plant closure.
4. A company must not be involved in corruption or support corruption by its employees.
5. A company has to make a contribution to the public budget by paying taxes in the country it operates. For this reason it is necessary to know and to comply with the tax laws of the different countries.
6. A company has to respect the intellectual property of other companies or persons.

CONCLUSION

The introduced hypernorms can be a basis for internationally active companies in developing their own code of ethics. They are a common basis for discussion in designing a code of ethics in an internationally active company. Such a code is the first step for a company to signalize its corporate social responsibility. Amending culturally specific ethical norms in every country is necessary because of the ethical norms that exist beyond the hypernorms. Hypernorms can serve conflicts which are thought to be illegitimate in every country. In situations where an action is thought to be right in one country and wrong in another, hypernorms are not in use. They are

just adaptive for culturally universal conflicts. The goal of this research was to develop and to justify hypernorms. It should face critique by Hartmann et al. (2003) or Soule (2002), who have said that the concept of hypernorms presented by Donaldson and Dunfee is too imprecise. The result must be noted differently. On the one hand we can say, that it is possible to develop hypernorms with the aforementioned process. On the other hand is the small sample of interview partners. Because of the small sample there can be no final conclusion as to whether the presented norms are universally valid. This research should give an impulse for further research in the area of norms for international or globally active companies.

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CAN PROSOCIAL CORPORATE BEHAVIOR CONCEAL UNFAIR BUSINESS PRACTICES? AN EXPERIMENTAL STUDY IN THE BANKING INDUSTRY

Ümit ALNIAÇIK
Kocaeli University, Turkey

Kültigin AKÇİN,
Orkun BAYRAM,
Erşan CİĞERİM,
Gebze Institute Of Technology, Turkey

ABSTRACT

Corporate social responsibility and business ethics are attractive research topics in the business literature. Several authors probed the effects of corporate social and ethical behavior on business performance, by investigating market, customer and employee responses. Although some equivocal findings do exist, extant literature shows a general support to the positive relations between corporate social behavior and business performance. However, experimental studies probing the interrelation between corporate social responsibility and questionable firm behavior (i.e. unfair treatment to customers and employees) are relatively scarce.

Accordingly, in this study, we examined the joint effects of a company's prosocial behavior and its unfair business practices on: (a) customers' assessments of the company and, (b) employees' intentions to seek employment with the company. For this aim, we conducted two experimental studies in the banking industry. We manipulated the information about a bank's level of commitment to prosocial behavior and its way of treatment to customers and employees; and examined how different combinations of these factors affect customers' evaluations of and employees' intentions to seek employment with the company. Research results showed that commitment to social and environmental causes can not smooth over the negative responses to unfair treatment to neither customers nor employees. When they are faced to make a choice between "everybody's goodwill" or "their own interests", both customers and employees are keen on their own benefit.

Keywords: Corporate Social Responsibility, Social Performance, Prosocial Behavior, Business Ethics, Customer Loyalty, Employee Commitment, Experimental Methodology

INTRODUCTION

Over the past 50 years, there has been a growing interest in the concept of Corporate Social Responsibility (CSR). Although there was opposing views in the past (Lewitt, 1958; Friedman, 1970); today, CSR is widely recognized as a strategic tool that enables firms to gain a competitive advantage (Drucker, 1984; Porter & Van der Linde, 1995; Porter & Cramer, 2006; Shrivastava 1995). The number of empirical studies which focuses on the impacts of CSR on business management has been continuously increasing. There is a rich literature on the relationship between a company's social performance and business performance, (Cochran & Wood, 1984; Orlitzky, Schmidt & Rynes, 2003; Pava & Krausz, 1996; Stanwick & Stanwick, 1998; Waddock & Graves, 1997). In spite of the fact that CSR is one of the most researched topics in the business literature, joint effects of a company's prosocial behavior and the way it treats its customers and employees, is currently under researched. Besides, most of the empirical work on corporate social responsibility and business ethics originate from developed countries. Research from underdeveloped or developing countries is relatively scarce. Still, a vast majority of the empirical research used the survey (questionnaire) method to investigate the issue of prosocial corporate behavior and its impact on customer attitudes and behavior. Experimental studies pursuing the effects of prosocial corporate behavior and business ethics on stakeholder responses are also rare. This study aims to

make up this shortcoming to some degree, by providing experimental evidence from a developing country (Turkey). Particularly, in this study we examine the joint effects of a company's prosocial behavior and its way of treatment to customers and employees on: (a) customers' assessments of the company and, (b) employees' intentions to seek employment with the company by using an experimental design. In the next section we provide a literature review on corporate social responsibility and business ethics. Following the literature review, experimental methodology and data analysis are presented. The paper is finished by concluding remarks and research implications.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Although its roots go back to early 20th Century, the modern concept of CSR has evolved since the 1950s, formalized in the 1960s and proliferated in the 1970s (Carroll, 1999). Many authors have tried to give a full definition to CSR however, an exact definition of CSR is elusive and yet to be pursued. There are two main schools of thought about the responsibilities of corporations. According to the shareholder view, the only responsibility of a business is maximizing its profits within the boundaries of the law (Lewitt, 1958; Friedman, 1970). On the other hand, the stakeholder view takes a broader scope of business responsibilities toward the society. Freeman's (1984) stakeholder theory posits that a corporation is composed of stakeholders that have, or claim, ownership, rights and interests in a corporation and its activities. Under this framework, anyone who might affect the business objective and anyone who might be affected by its realization are considered as stakeholders. A corporation's business activities may affect-directly or indirectly-the well-being of many stakeholders including shareholders, employees, customers, suppliers, local communities, natural environment, government and general society. Thus, a corporation has more responsibilities towards the society, than simply producing profits for its shareholders; and it must behave in a socially responsible manner. Socially responsible behavior includes a broad range of activities such as treating customers, employees and business partners fairly, supporting societal causes, protecting and improving the natural environment, and so on. In this respect, CSR is a broad term that has been defined in various ways. Among others, Carroll's definition depicting the four basic categories of corporate social responsibility enjoyed wide popularity. He proposed the following definition: "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time" (Carroll, 1979). Later, he revised this definition and proposed a three domain model depicting economic, legal and ethical responsibilities (Schwartz & Carroll, 2003).

A considerable amount of academic research was pursued to identify the direction and magnitude of the relationship between prosocial corporate behavior and business performance (Aupperle, Carroll, & Hatfield, 1985; Balabanis, Phillips & Lyall, 1998; Cochran & Wood, 1984; McGuire, Sundgren, & Schneeweis, 1988; McWilliams & Siegel, 2000; Orlitzky, Schmidt & Rynes, 2003; Pava & Krausz, 1996; Waddock & Graves, 1997). But, these studies revealed equivocal results (Margolis and Walsh, 2001). On the other hand, a number of academic researches indicate a positive relationship between a company's CSR actions and consumers' purchase intentions and attitudes toward that company (Murray and Vogel, 1997; Creyer and Ross, 1996; Brown and Dacin, 1997; Lafferty and Goldsmith 1999; Auger, Burke, Devinney, and Louviere, 2003; Bhattacharya and Sen, 2003; Mohr and Webb, 2005). These studies indicated that a company's positive contributions to societal and environmental issues had a significant effect on attitudes toward the company and its brands, and increased the purchase intentions. However, some others found that CSR activities are not always directly related to consumer purchase intentions. The effectiveness of CSR activities may vary depending on the perceived motivation of the CSR (Barone, Miyazaki, & Taylor, 2000; Ellen, Mohr, & Webb, 2000). Another important finding is that, consumers are found to be more sensitive to negative CSR information about a company than positive CSR information (Sen & Bhattacharya, 2001).

Research examining the effect of CSR on employee behavior is relatively scarce. However, another set of academic research indicates a positive relationship between CSR and employee behavior (Cropanzano, Byrne, Bobocel, & Rupp, 2001; Rupp, Ganapathi, Aguilera, & Williams, 2006). Research by Turban and Greening (1997) and Greening and Turban (2000) documented that job applicant and employee perceptions of a firm's CSR affects how attractive these individuals perceive the firm to be. A field experiment by Sen, Bhattacharya and Korschun (2006) revealed that awareness of a company's CSR is associated with a greater intention to (a) consume the company's products, (b) seek employment with the company, and (c) invest in the company.

Most of the existing studies approach the issue of CSR with an "all-or-nothing way" and probe the impact of its existence or non-existence on business performance. Indeed, CSR has several aspects (i.e. societal, environmental, customer and employee relations) and a company may lack some aspects of CSR while it carries

out the others. For example, a company which takes action towards environmental sustainability may mistreat its employees at the same time, or the opposite may be true in practice. Thus, studying the interrelations between various aspects of CSR may provide important insights. In this perspective business ethics, in terms of how a company treats its customers and employees should also be examined.

BUSINESS ETHICS

Concern for ethical issues in the business world has significantly increased over the last four decades. Corporate scandals (from Watergate to Enron and recently Goldman Sachs) and catastrophic environmental accidents (i.e. Exxon Valdez and BP Oil Spill) have triggered both public and government scrutiny into business actions. Similar to public concern, an entire volume of academic research in business management has been devoted to ethics and social responsibility. Ethics most often refers to a domain of inquiry, a discipline, in which matters of right and wrong, good and evil, virtue and vice, are systematically examined (Brinkmann, 2002). Ethics is the "inquiry into theories of what is good and evil and into what is right and wrong, and thus is inquiry into what we ought and ought not to do (Beauchamp and Bowie (1983; 3). Business ethics is a set of established rules, standards, or principles for morally "right" behavioral conduct in specific situations (Stajkovic and Luthans, 1997). It requires that the organization or individual behaves in accordance with the carefully thought-out rules of moral philosophy (Robin and Reidenbach, 1987). When a company is described as being ethical, then, this is usually referring to the degree to which it behaves in a moral or fair way (Cacioppe, Forster, Fox, 2008). Most of the models that have emerged are the products of scholars in psychology or related disciplines, including organizational behavior and marketing (Tseng, Duan, Tung, Kung, 2009). Among others, Trevino (1986) proposed a general theoretical model whereas Ferrell and Gresham (1985), Hunt and Vitell (1986), and Dubinsky and Loken (1989) offered models that focus on marketing ethics. Another considerable amount of academic research is devoted for identifying the consequences of corporate social and ethical behavior.

Extant research shows that responsible and ethical business practices pay off in the long run in better customer and employee relations (Alexander, 2002; Creyer and Ross, 1996; Folkes and Kamins, 1999; Smith and Cooper-Martin, 1997; Whalen et al., 1991). A growing number of polls, commercial reports and academic research indicate the positive effects of CSR on business performance and stakeholder responses. According to Cone's "Cause Evaluation Survey", more than two-thirds (69%) of Americans say they consider a company's business practices (such as impact on the environment, treatment of employees and financial transparency) when deciding what to buy (Cone, 2007). Murray and Vogel (1997) found that CSR actions significantly predict purchase intentions. Creyer and Ross (1997) determined that consumers' purchase intentions were related to whether the company's ethics record exceeded their expectation. Auger, Burke, Devinney, and Louviere, (2003) found that consumers expressed willingness to pay more for ethically made products.

As good practices of business ethics may carry benefits, questionable or unfair business practices may create serious penalties for companies. The recent spate of corporate scandals in the USA, Europe, South-East Asia and Australia have demonstrated that unethical and immoral behavior by business organizations can have significant negative consequences for shareholders, employees, pension investment funds, customers and the many small businesses that had been trading with these companies (Cacioppe, et al., 2008). Unethical behavior may harm sales, worsen employee fraud, productivity and the risks from scandals. It may worsen employee retention, absenteeism and sabotage behavior (Josephson Institute, 2009). Employee attitude and behavior are heavily influenced by fairness of organizational actions towards them (Cropanzano, Byrne, Bobocel, & Rupp, 2001). Unethical firm behavior may damage firm reputation and decrease consumer trust.

Corporate social responsibility and business ethics are intertwined subjects and both of them affect business performance. Besides, they interrelate and complement each other. However, serious criticism rose from various academicians towards CSR and business ethics. According to the most famous opponent, Milton Friedman, ethics only concerns individuals, and only people can have responsibilities. There is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it engages in open and free competition without deception and fraud (Friedman, 1970). According to Henderson, CSR is hostile to capitalism and the market economy, putting undue pressure on businesses (Henderson, 2001). Some others took a more cynical perspective and argued that the genuine interest of CSR activities is not philanthropy. They believe that CSR programs are undertaken to distract the public from ethical questions posed by their questionable operations. They also argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government (McKibben, 2006). From this perspective CSR is a precarious tool that may be used to deceive different stakeholders such as customers,

employees, government and the general public. When taking the opponents' view (who says that the genuine interest in the concept of CSR is still profit maximization by deceiving the society) into account, there is an important question to be answered: Can prosocial corporate behavior be (mis)used to conceal unfair business practices? In order to answer this question, we designed two experimental studies to explore whether the CSR activities can be used to smooth over the negative responses to unfair business practices such as mistreating customers and employees. Since they were exploratory studies, no specific hypotheses are developed in advance.

STUDY 1: CSR AND TREATMENT TO CUSTOMERS

Research Design

A 2X2 between subjects experimental design was used to examine how CSR activities and way of treatment to customers interactively affect customers' evaluations of a company. The first experimental factor was the information about a bank's prosocial behavior (strong vs. weak). The second factor was information about how the bank treats its customers (fair vs. unfair). These factors were oppositely manipulated in a short story, where the name of the bank was disguised. Research instrument was a questionnaire, which had the short story on one side, and the relevant questions on the other side. Two versions of the short story were produced for generating the experimental conditions. In the first version (prosocial but unfair to customers), the bank's approach to social matters was described in a positive perspective (depicting a strong social performance), whereas its way of treatment to the customers was described in a negative manner (i.e. showing an outrageous commitment to profit maximization by charging high annual membership fees, excessive transaction fees and high interest rates) in the same story. In the second version (fair to customers but not prosocial), it was the opposite. (The Bank treats its customers fairly with an acceptable profit orientation but it is criticized for not being responsible to the natural environment and to the needs of the community).

A convenience sample of 120 adults (customers of a multinational bank functioning in Turkey) participated in this study. Experiments were conducted by a bank officer, who had been instructed about the study. The mean age of subjects was 33 years (range:18-59; sd.=8.55) and 62% were male. Subjects were randomly and evenly assigned to either experimental condition. The dependent variable was subjects' assessments of the focal bank (perceived service quality, overall image, intention to become a customer), which were assessed with 9 Likert type scales. Level of agreement or disagreement with items were reported on five point scales, ranging from 1= Completely Disagree to 5= Completely Agree. Scale items were generated by the researchers from relative literature. In order to check the effectiveness of the manipulations, a direct question was asked at the end of the questionnaire.

Data Analysis and Results

In order to check the experimental manipulations, subjects were asked to indicate the weakest aspects of the narrated Bank. In the "Prosocial but unfair to customers" version, a majority of the respondents (80%) indicated "customer orientation" as the weakest aspect of the focal firm. In the "Fair to customers but not prosocial" version, a majority of the respondents (82%) indicated "corporate social responsibility" as the weakest aspect of the focal firm. These results show that experimental manipulations worked properly.

Subjects' evaluations of the focal company were measured by using a nine-item scale. Factor and reliability analyses were carried out to examine the dimensionality and reliability of the dependent measure. Scale dimensionality was assessed by exploratory factor analyses. This single factor explained 77.8% of the total variance (eigenvalue=7.005). Thus, a composite measure was created by averaging the responses on nine items. The composite variable was named as "Customer Evaluations". The Cronbach alpha reliability of the composite measures was .96. Table 1 shows means and standard deviations of the scale items for different experimental conditions.

Table 1: Customer Evaluations: Scale items' means and standard deviations according to different experimental conditions

SCALE	ITEMS	Prosocial but unfair		Fair but not prosocial	
		(n=60)	(n=60)	(n=60)	(n=60)
		Mean	Sd.	Mean	Sd.
	This bank has a good reputation amongst customers	2,40	1,14	3,83	0,94
	This bank provides high quality products and services	2,88	1,35	4,20	0,75
	This bank keeps its promises	2,83	1,23	3,92	0,91
	Overall image of this bank is positive	2,68	1,19	3,18	1,10
Customer Evaluations	I would love to be a customer of this bank	2,45	1,06	3,88	0,99
	I can safely entrust my money and other savings to this bank	2,77	1,11	3,85	0,88
	I would recommend this bank to my friends and relatives	2,50	1,07	3,63	0,97
	If I was a customer of this bank, I would never think to switch to another	2,48	1,14	3,82	0,98
	This bank has a good reputation amongst customers	2,40	1,14	3,83	0,94
	OVERALL	2,57	0,98	3,78	0,82

Mean scores of the dependent variable in different experimental conditions were compared by using independent samples t tests. T test results indicated a significant difference between the different experimental conditions ($t(118) = 7.299$; $p < 0.001$). "Prosocial but unfair to customers" treatment attained a mean score which was lower than the mid-point ($M = 2.57$; $sd = .98$). "Fair to customers but not prosocial" version attained a relatively higher mean score ($M = 3.78$; $sd = .82$). These results show that a strong social performance is not sufficient to smooth over the negative customer evaluations to unfair business practices.

STUDY 2: CSR AND TREATMENT TO EMPLOYEES

Research Design

A similar 2X2 between subjects experimental design was used to examine how CSR activities and way of treatment to employees interactively affect employees' intentions to work for a company. The first experimental factor was the information about a bank's prosocial behavior (strong vs. weak). The second factor was information about how the bank treats its employees (fair vs. unfair). These factors were oppositely manipulated in a short story, where the name of the bank was disguised. Research instrument was a questionnaire, which had the short story on one side, and the relevant questions on the other side. Two versions of the short story were produced for generating the experimental conditions. In the first version (prosocial but unfair to employees), the bank's approach to social matters was described in a positive perspective (depicting a strong social performance), whereas its way of treatment to employees was described in a negative manner (i.e., laying-off employees, reducing their wages and salaries or hindering personal development under the pretext of the global financial crisis) in the same story. In the second version (fair to employees but not prosocial), it was the opposite (The Bank treats employees with respect and dignity but it is criticized for not being responsible to the natural environment and to the needs of the community).

A convenience sample of 165 adults (employees of a public bank functioning in Turkey) participated in this study. Experiments were conducted by a mid-level bank administrator, who had been instructed about the study.

The mean age of subjects was 29 years (range:22-39; sd.=3.73) and 50% were male. Subjects were randomly assigned to either experimental condition. The dependent variable was subjects' intentions to work for the narrated bank, which were assessed with 9 Likert type scales. Level of agreement or disagreement with items were reported on five point scales, ranging from 1= Completely Disagree to 5= Completely Agree. Scale items were generated by the researchers from relative literature. In order to check the effectiveness of the manipulations, a direct question was asked at the end of the questionnaire.

Data Analysis and Results

In order to check the experimental manipulations, subjects were asked to indicate the weakest aspects of the narrated Bank. In the "Prosocial but unfair to employees" version, a vast majority of the respondents (99%) indicated "quality of workplace" as the weakest aspect of the focal firm. In the "Fair to employees but not prosocial" version, all of the respondents indicated "corporate social responsibility" as the weakest aspect of the focal firm. These results show that experimental manipulations worked properly.

Subjects' intentions to work for the focal bank were measured by using a ten-item scale. Factor and reliability analyses were carried out to examine the dimensionality and reliability of the dependent measure. Scale dimensionality was assessed by exploratory factor analyses. This single factor explained 86.9% of the total variance (eigenvalue=8.69). Thus, a composite measure was created by averaging the responses on nine items. The composite variable was named as "Employment Intentions". The Cronbach alpha reliability of the composite measures was .98. Table 2 shows means and standard deviations of the scale items for different experimental conditions.

Table 2: Employment Intentions: Scale items' means and standard deviations according to different experimental conditions

SCALE	ITEMS	Prosocial but unfair (n=78)		Fair but not prosocial (n=87)	
		Mean	Sd.	Mean	Sd.
Employment Intentions	I would love to work for Bank XYZ	1,59	0,65	4,46	0,55
	I would accept a lower salary to work for Bank XYZ	1,88	0,56	4,30	0,55
	I would be proud to work for Bank XYZ	1,32	0,52	4,32	0,47
	If I worked for Bank XYZ, I would never think to quit.	1,53	0,57	4,22	0,44
	If I worked for Bank XYZ, my job performance would be on the top	1,41	0,63	4,25	0,44
	If I worked for Bank XYZ, I would perform with high loyalty	1,86	0,50	4,69	0,54
	If I worked for Bank XYZ, I would be satisfied with my job	1,37	0,61	4,67	0,47
	Working for Bank XYZ would satisfy me emotionally	1,54	0,57	4,47	0,55
	Working for Bank XYZ would be a pleasure for me	1,55	0,57	4,59	0,58
	If I worked for Bank XYZ, I would be highly committed to my job	1,88	0,53	4,03	1,32
OVERALL		1,59	0,34	4,40	0,18

Mean scores of the dependent variable in different experimental conditions were compared by using independent samples t tests. T test results indicated a significant difference between the different experimental conditions ($t(163) = 66.535$; $p < 0.001$). “Prosocial but unfair to employees” treatment attained a mean score which was significantly under the mid-point ($M = 1.59$; $sd = .34$). “Fair to employees but not prosocial” version attained a relatively higher mean score ($M = 4.4$; $sd = .18$). These results show that a strong social performance can not smooth over the negative responses to unfair treatment to employees.

OVERALL RESULTS AND CONCLUSION

In this study, we examined the joint effects of a company’s social performance and its way of treatment to customers and employees on: (a) customers’ evaluations of the company and, (b) employees’ intentions to seek employment with the company. For this aim, we conducted two experimental studies in the banking industry. We manipulated the information about a bank’s level of commitment to prosocial behavior and its way of treatment to customers and employees; and examined how different combinations of these factors affect customers’ and employees’ responses.

In the first study, data analysis revealed that no matter how deep the bank is involved in social responsibility activities, unfair treatment to customers (commitment to profit maximization rather than customer satisfaction) damaged the perceived reputation of the bank, and significantly decreased respondents’ intentions to purchase services from that bank. Customer evaluations of the focal bank was significantly unfavorable in the “prosocial but unfair to customers” condition, compared to the “not prosocial but fair to customers” condition. The second study revealed similar results concerning the employee responses. It is found that commitment to social and environmental causes could not smooth over the negative responses to unfair treatment to employees. Intentions to seek employment with the focal bank was significantly lower in the “prosocial but unfair to employees” condition than the “not prosocial but fair to employees” condition.

These results provide important managerial implications for the banking industry, concerning the issue of corporate social responsibility and ethical treatment to customers and employees. It is seen that, when they are faced to make a choice between “everybody’s goodwill” or “their own interests”, both customers and employees are keen on their own benefit. CSR activities can not conceal unfair business practices nor they can help reducing negative responses to unfair business practices. Yet, taking the opponents’ view (who says that the genuine interest in the concept of CSR is still profit maximization by deceiving the society), these results imply that banking executives must be very careful when defining their expectations from the CSR activities. Help from CSR can not be sufficient to repair the damage to their reputation which is caused by unfair treatment to customers and employees.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The study has some limitations. First of all, it was conducted with the use of a convenience sample in a contrived setting. Using artificial narratives about a hypothetical bank in a questionnaire may have created a higher level of task involvement than a natural setting would do. But this does not compromise the internal validity of the experiment, since we believe that this factor might have affected the different treatment groups in a similar way. However, there is a need to replicate this research with the use of a more representative samples. Future studies would gain external validity by using probability samples of wider populations. We also used a fictitious company to avoid any effects due to previously acquired knowledge. In future research, more realistic experimental settings may be designed by using real reports or news about factual firms.

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WHO'S MOBBING WHOM

Fatma Zehra SAVI
Behiç ÇELEBİ

Kastamonu University, TURKEY

ABSTRACT

The term “mobbing”, which includes workplace terrorizing, pressure, frightening, belittling and psycho-terror, is defined as the presence of systematic, directed, unethical communication and antagonistic behaviour by one or more individuals. This research was conducted as a descriptive and cross sectional study with the purpose of determining the mobbing experienced by womens who work in banking sector in Turkey. The research participants were 400 women working in banking sector of whom 220 employees and 180 employee in public and private banks. A questionnaire developed by the researchers in the light of information in the literature was used for data collection and had four sections including the participants’ demographic characteristics and questions asking about mobbing behaviours, reaction to mobbing incidents and actions taken to escape from the mobbing. The overwhelming majority (86.5%) of the women workers participating in the research reported facing mobbing behaviour in the work place in the last 12 months. The women employees working at the bank faced statistically significantly more mobbing behaviours than women employee ($p \leq 0.02$). It was determined that the empolees who faced mobbing behaviours gave various physiological, emotional and social reactions to these incidents.

INTRODUCTION

Mobbing is the word which originates from English verb “to mob”, which means to crowd around andjstle or annoy, especially in anger or to crowd into or to attack in large numbers and overwhelm. We use it for the systematic persecution of an individual employee aimed at forcing him to quit his job. This has been often preceded by an effort of employee to get his legal rights.

No generally accepted definition of workplace mobbing or bullying exists, but most definitions refer to persistence and negative effects perceived by the victim. Mobbing is mentioned when persecution becomes regular, at least once per week, lasting 6 months or longer. Leymann (2004) states that “Psychological terror or mobbing in working life involves hostile and unethical communication which is directed in a systematic manner by one or more individuals, mainly toward one individual, who, due to mobbing, is pushed into a helpless and defenseless position and held there by means of continuing mobbing activities. These actions occur on a very frequent basis (statistical definition: at least once a week) and over a long period of time (statistical definition: at least six months’ duration). Because of the high frequency and long duration of hostile behavior, this maltreatment results in considerable mental, psychosomatic and social misery”.

Other definition by Einarsen and Skogstad (1996) is: “Bullying and harassment occurs when one or more individuals, repeatedly over a period of time, are exposed to negative acts (be it sexual harassment, tormenting, social exclusion, offensive remarks, physical abuse and the like) conducted by one or more other individuals. There must also exist an imbalance in the power relationships between the two parties. The person confronted has to have difficulties defending him/ herself in this situation. It is not bullying if two parts of approximately equal “strength” are in conflict or the incident is an isolated event”.

Mobbing is offensive behavior through vindictive, cruel, malicious or humiliating attempts to undermine an individual or group of employees. Mobbing is also persistently negative attacks on personal and professional performance, typically unpredictable, irrational and often unfair. This abuse of power or position can cause such chronic stress and anxiety that the employees gradually lose belief in themselves, suffering physical ill-health and mental distress as a result. Mobbing is a significant factor in stres at work, accounting for between a third and half of all employment-related sickness absence due to the stress. It is an emotional injury that impacts a target's mental and physical health. Mobbing is a workplace safety and health issue (Davenport, Schwartz, Elliott, 1999).

According to International Labor Organization, the most important problem in the work place is psychological abuse at the beginning of the new millennium. Psychological abuse has become more widespread because of legal regulations, particularly in public facilities, against physical violence. For this reason victims of mobbing are subjected to attitudes and behaviours that can be psychological abuse, such as, terrorizing, annoying, excluding, being considered parenthetical, belittling, being deprived of some organization resources, isolating, being treated unjustly in the use of organizational resources, being prevented from or delayed from claiming rights (Leymann 1990, Einarsen 2000, Cowie et al. 2002). These behaviours towards the individual can be from the facility's management, superiors, coworkers in the same position, or subordinates (Einarsen 2000, Fox & Stallworth 2003). The individual or individuals administering psychological abuse mount an organized front against the individual for systematic, long-term, frequently occurring bullying behaviours that also affect others. Others who work in the facility act as if they do not see these behaviours, close their eyes to them or even provoke them and the victim feels helpless facing so many powerful people and mobbing occurs (Leymann 1990, Einarsen 2000, Cowie et al. 2002).

These actions, which occur frequently and over a long time, are the most serious and effective causes of workplace stress. During the mobbing the targeted individual is helpless, unprotected and alone in the workplace (Leymann 1990). Individuals who are exposed to psychological abuse experience various physiological, psychological and social problems related to high levels of stress and anxiety. The victims have decreased quality of life and work, their health is affected and their social relationships are damaged. The victims who lose their jobs and, most importantly, their health, in this process are affected economically, physically and emotionally.

METHODOLOGY

The phenomenon of mobbing is being analyzed for three decades in the West. Leymann(1990, 1993, 1996) the scientist from Sweden is considered to be the initiator of the research. The term 'mobbing' is defined as antagonistic behaviors with unethical communication directed systematically at one individual by one or more individuals in the workplace. This cross-sectional and descriptive study was conducted for the purpose of determining the mobbing behaviors encountered by women staff in banking sector in Turkey, its effect on them, and their responses to them.

Data were collected through questionnaire. The constructs in our study are developed by using Leymann Inventory of Psychological Terrorization (LIPT; Leymann 1990). LIPT is a 45 item scale that contains items concerning mobbing at work to be completed by women victims. Respondents indicate how often they experience each item at work using 5 point ("Never" to "Daily") scale. Of the victims who participated in the research 220 (%55) were employees and 180 (%45) were employee. Data were collected between January and February 2010. The purpose of the present study is to find out who performs the mobbing act by examining the issue mainly from the viewpoint of women employees. In other words, the study aims at answering the question of whether the women employees are the victims or the offenders of the mobbing acts.

A four section questionnaire was used in data collection that was prepared after a literature review. In the first section the participants demographic information (age, education, length of time employed in banking, length of time employed in current facility and position etc.) were requested. In the second section questions were asked about mobbing behaviours, in the third emotional, physiological and organization behaviours experienced in reaction to mobbing and the fourth section is about the women is the object or the subject of mobbing.

Statistical analysis of the data was conducted with the SPSS 16.0. The reliability test was conducted to verify the internal consistency of the variables obtained through the questionnaire. The Cronbach's alpha value (α) is found 0.8677, which is higher than the minimum acceptable level suggested by Nunnally (1978). Descriptive statistics were used in particular in the data analysis (frequency, percentage, mean, standart deviation). Correlation and multi-regression analysis were conducted to determine the relationship between "mobbing behaviours" and womens demographic characteristics. The last analysis was carried out with independent sample t-test to determine whether or not there was a difference in mobbing between employees and employee.

DEMOGRAPHIC FEATURES

The participants mean age was 30.56 years (std.dev.6.83), their total years of employment in banking 10.55 (std.dev.7.00) and their number of years of employment in their facility was 8.48 (std.dev.6.58). A large number of participants %40 were graduates of university, %31.7 were two year associate degree and the others were graduates of high school.

MOBBING BEHAVIOURS

Statistical information about the participants experiences with mobbing behaviours are shown in Table 1. The item total score correlations varied between 0.44 and 0.65 and the correlation for all of the items was at a statistically significant level ($p \leq 0.01$). The Cronbach's alpha internal consistency for all the items was determined to be 0.93.

Table 1. Frequency, mean, standard deviation (SD) and item total correlation of participants reports of 'mobbing behaviours'				
	% experienced at all (N=400)	Mean	SD	r*
Having someone speak about you in a belittling and demeaning manner in the presence of others	55,2	1,31	1,37	0,64
Having untrue things said about you	45,7	1,06	1,33	0,59
Having someone behave in a demeaning manner (using body language) towards you in the presence of others	40,4	0,93	1,30	0,63
Having someone suggest that you are not psychologically well	15,8	0,32	0,84	0,53
Being forced to do a job that will negatively affect your self-confidence	30,5	0,70	1,21	0,58
Having your honesty and reliability questioned	31,1	0,71	1,21	0,58
Having false rumours said about your private life	23,6	0,52	1,07	0,49
Being verbally threatened	35,8	0,72	1,15	0,46
Facing behaviours such as slamming fist onto table	21,8	0,46	1,01	0,45
Always having your performance evaluated negatively	31,3	0,69	1,16	0,61
Being blamed for things you are not responsible for	50,5	1,20	1,40	0,57
Being held responsible for negative results of work done with others	42,6	0,96	1,27	0,50
Always having errors found in your work and work results	46,1	1,12	1,62	0,47
Always having your professional adequacy questioned in the work you do	30,5	0,66	1,21	0,55
Having unfair reports written about you	17,0	0,30	0,77	0,44
Having you feel like you and your work are being controlled	50,1	1,36	1,59	0,38
Not being given an opportunity to prove your self	31,3	0,85	1,40	0,61
Having the decisions and recommendations you have made criticized and rejected	41,4	1,01	1,38	0,65
Having duties that you are responsible for taken from you and given to others in lower positions	14,5	0,33	0,92	0,56
Being inspected by others in positions below yours	19,4	0,46	1,09	0,51
Considering the work you have done as without value and importance	40,8	1,20	1,60	0,52
Not being informed about social meetings that are organized	24,6	0,61	1,20	0,56
Not being able to get an answer to your request for a meeting and to talk	19,4	0,48	1,11	0,56
Being treated at your workplace as if you aren't seen and don't exist	27,7	0,73	1,31	0,63
Frequently being interrupted while you are speaking	32,1	0,81	1,29	0,63

Not receiving an answer to e-mail you have sent and telephone calls	13,5	0,34	0,92	0,60
Preventing or forbidding coworkers from talking with you	11,1	0,26	0,83	0,54
When you enter an area knowingly leaving the area where you are	15,5	0,31	0,82	0,52
Holding you responsible for work more than your capacity	37,5	0,93	1,41	0,48
Pressuring you to quit your job or change your workplace	14,7	0,33	0,94	0,50
Hiding information, documents and material from you that you need for your job	13,1	0,33	0,95	0,59
Harming your personal things	7,9	0,16	0,59	0,44
Having physical violence used	7,3	0,14	0,54	0,46
Total mobbing behaviors	86,5	22,25	21,95	Total $\alpha = 0,93$

The most common mobbing behaviour experienced by the participants was determined to be “having someone speak about you in a belittling manner in the presence of others” (%55.2). When asked from whom they experienced this behaviour, %75.8 of participants reported that it was from their employee, %24.2 was from customers. The second most common mobbing behaviour experienced was “being blamed for things you are not responsible for” (%50.5). This behaviour was from employee by %69.4, from customer %30.6. The third most commonly experienced mobbing behaviour was “having you feel like you and your work were being controlled” (%50.1). This behaviour was most frequently from their employee (%86.8) followed by customers (%13.2).

REACTION TO MOBBING

Statistical information about the participants reactions to mobbing behaviours are shown in Table 2. The item total score correlations varied between 0.36-0.77 and statistically significant correlation was shown between the items ($p \leq 0.01$). The Cronbach's alpha internal consistency coefficient for all the items was determined to be 0.95.

	% experienced at all (N = 400)	Mean	SD	r*
I feel extremely sad when I remember the hostile behaviours towards me	58,8	1,43	1,58	0,64
I repeatedly remember/relive the behaviours that were done	56,2	1,24	1,43	0,75
I am afraid vvhhen I go to vvork, I do not want to be at work	40,1	0,79	1,22	0,70
I feel lonely	44,0	0,94	1,32	0,68
I do not trust anyone at my workplace	48,6	1,10	1,43	0,65
I feel like I have low self-confidence and respect	33,7	0,66	1,12	0,63
I feel decreased commitment to my work	46,2	1,00	1,34	0,70
My work life is negatively affecting my Life away from work (my marriage and family)	54,7	1,36	1,68	0,67
I feel guilty most of the time	36,6	0,56	0,88	0,58
I feel like I really want to cry	52,5	1,00	1,26	0,77
I feel like I have been betrayed	36,0	0,75	1,20	0,70
I have a fear that something bad is going to happen for no apparent reason	43,6	0,90	1,30	0,74
I feel very disturbed and easily frightened	35,8	0,70	1,18	0,69
My sleep is disturbed	48,5	1,27	2,43	0,50
I spend most of my time vvith subjects not directly related to my work	45,3	1,02	1,39	0,49
I give the appearance of being very busy even when I have not done	13,7	0,26	0,76	0,45

anything				
I move slowly vvhen I need to do something	15,3	0,27	0,76	0,38
I take out the pain I have suffered on others by belittling them	75	0,14	0,59	0,36
I have conflict with my coworkers at my workplace	36,9	0,58	0,90	0,55
I have trouble concentrating on a task	38,4	0,66	1,01	0,66
I am not able to do any work at my workplace	16,8	0,27	0,70	0,51
I am making mistakes in my work	32,1	0,46	0,79	0,45
Sometimes I think about taking revenge on people vvho have acted against me	31,1	0,52	0,93	0,53
I am receiving support from a psychologist because of the behaviours I have been exposed to	14,3	0,27	0,76	0,38
I curse those who have done these things to me	31,2	0,71	1,30	0,52
I have uncontrolled movements/tics	16,0	0,33	0,88	0,45
I experience changes in my blood pressure	39,4	0,89	1,32	0,54
I have gastrointestinal complaints	52,9	1,38	1,62	0,65
I want to eat excessively or I have decreased appetite	53,5	1,42	1,63	0,70
I am using alcohol, cigarettes or drugs (substances)	36,2	1,03	1,60	0,48
I feel stressed and tired	72,9	2,13	1,69	0,69
I have headaches	69,5	1,84	1,61	0,64
I have chest pain, heart palpitations	44,0	1,01	1,45	0,66
I think I am depressed	50,1	1,19	1,50	0,73
Total reaction to mobbing behaviours	85,1	42,06	32,88	Total □= 0,95

It can be said that physiological reactions were the most frequent reactions of the participants to the mobbing behaviours. Their reactions included feeling tired and stressed (%72.9), having headaches (%69.5), eating excessively or not having an appetite (%53.5) and having gastrointestinal complaints (%52.9). In addition most common emotional reactions were that they they experienced extreme sadness when they remembered the behaviours against them (%58.8), they frequently remembered the behaviours (%56.2), thier lives away from work were negatively affected by these (%54.7) and they felt like they wanted to cry (%52.5).

DIFFERENCE IN MOBBING BETWEEN WOMEN EMPLOYEES AND WOMEN EMPLOYEE

Much studies in literature show men attack men and women attack women. In our study all of our participants were just only the womens. We tested this thesis in our women employees and % 61 of victims said their mobber were men. %70.9 of the women employees were mobbed by a women employee. More mobing behaviours were experinced by employees (20.65 Std.Dev.22.77) compared with employee (25.12 Std.Dev.20.14) and this difference was found to be statistically significant ($t=-2.20; p \leq 0.02$)

Regression analysis was used to examine the difference in mobbing between women employees and women employee ($\beta=0.16; F=6.38; p < 0.002$). It was determined that %12 ($p < 0.005$) of the employees facing of mobbing behaviour was effected by their working with a women employee and %11($p < 0.05$) was effected by their being in a lower position.

CONCLUSION

This paper discussed mobbing from the perspective of women employees and women employee in banking sector. In this study a large percentage of employees (%86) who participated in the research had faced bullying behaviours one or more times within the last 12 months and the majority of these behaviours were from their managers. Women are especially at risk of being targeted particularlyly by other women. The highest incidence of abuse was perpetrated by women against other women %84 of the time. Moreover, those women in management and supervisory positions may be particularly susceptible. Furthermore, it is claimed that women employee keep competent women from being noticed and promoted with “underhanded” or cover

behaviours. These covert behaviours include spreading rumours and hearsay and making unjustified accusations that discredit the targeted employees performance and abilities.

Mobbing behaviours in the work place need to be defined and appropriate policies and procedures need to be developed and shared with all employees to prevent the development of these behaviours. Managers should adopt an open managerial approach to prevent the development of these behaviours. In an open management style instead of having an autocratic management style everyone who works at the facility has access to all information and every document, participates in meetings that are of interest to them, has freedom of speech and thought and does not fear that their freedom or they themselves are at threat when institutional goals and policies are decided on together. It is recommended that both qualitative and quantitative research be conducted for the purpose of determining detailed factors that influence the development of mobbing behaviours and the mobbing formation process in banking sector.

There should be a punishment for mobbing. Mobber must know the victim has a conscious to report attack to management and it will be punished.

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THE RELATIONSHIP BETWEEN PERSONALITY AND BEING EXPOSED TO WORKPLACE BULLYING OR MOBBING

Nevin Deniz
Marmara University

Öznur Gülen Ertosun
Gebze Institute of Technology

ABSTRACT

Workplace bullying which is frequently in discussion at organizations and academia, and effects badly quality of both work and private life of victims and witnesses can be prevent if the antecedents of the phenomenon is known. Some researchers stress on organizational and individual antecedents while some others refuse personality factor. School-based studies found significant relationship between personality and bullying which is the start point for workplace bullying studies about personality factors. The study is done in order to investigate the relation between workplace bullying and personality of employee being exposed to such behaviors that is stated as "victim". Because there are few academic studies in Turkey about workplace bullying, which is just new and less known issue and personality of victim, by investigating international researches, personality of victim is found to have taken into consideration as one of antecedent of workplace bullying. A cross sectional survey is done in a single company in order to investigate the relationship between variables and similarly to the international researches significant correlations found.

Keywords: Workplace Bullying; Mobbing; Personality

INTRODUCTION

While explaining antecedents of workplace bullying most researchers stress on organizational and social factors; Leymann indicated that organization of work and quality of leadership are the main antecedents of workplace bullying (Einarsen, Hoel, Zapf, Cooper, 2003, p.165), studies by Keashly and Jagatic (2000) and Varita (1996) suggest that communication and cooperation problems, low morale and negative social climate are the main organizational causes of bullying, another study is done by Hoel and Salin (2003) reports that at the condition wherein job and promotion opportunities decrease and competition, pressure and responsibilities increase, bullying find place itself (Beswick, Gore, Palferman, 2006, p.21-23). Varita (2001), Hoel & Cooper (2000) found relationship between bullying and 'high workload (Beswick, Gore, Palferman, 2006, p.24) and Rayner (1997a) found in his survey similar results (ACPR, p.16). Beside these such as, "role ambiguity and role conflict" (Beswick, Gore, Palferman, 2006, p.23), "low status workers" (Hodson, Roscigno, Lopez, 2006, p.407) and "low control over time" (Beswick, Gore, Palferman, 2006, p.22; ACPR, p.16), several variables are investigated as antecedents of workplace bullying.

However investigating victims' personality is a divisive issue for researchers; for example Leymann strongly against the idea that personality of a person can be reason for being victim because victims develop changes in personality due to workplace bullying; the symptoms of bullying are misunderstood and interpreted as being that which the individual brings into the organization in the first place (Coyne, Seigne, Randall, 2000, p.337). Brodsky says that if organizational climate doesn't permit, workplace bullying can't be occur (Shin, 2005, p.11.). According to Zapf, the responses of the target can be thought at least in the early phases of conflict, but he stress on not to blaming victim (Salin, Ekonomi Och Samhalle, 2003, p.18).

Contrastly to these, school based bullying studies (e.g. Olweus, 1993) found victims' personality as an effective factor (Einarsen, Hoel, Zapf, Cooper, 2003, p.165), and Randall (1997) said that these results can be possible for adult bullying (Coyne, Seigne, Randall, 2000, p.337). According to Einarsen and others organizational factors

naturally important (Einarsen, Hoel, Zapf, Cooper, 2003, p.165) but can't explain the whole of the picture without individual side (Rayner, Hoel, 1997, p.186). The experiences of being bullied which is a cognitive process of evaluation affected by both situational and personality variables (Matthiesen, Einarsen, 2001, p.470), hence personality of victim is investigated in this study.

Firstly, literature is reviewed, research model is structured in the light of the literature, personality is the independent variable, workplace bullying or mobbing is the dependent variable and demographic variables are investigated in the research model then hypothesis are developed. After main information about the subject is given and discussed their theoretical implications in the study, to find answer to the research question "Is there a significant relation between being exposed to workplace bullying and victim's personality", statistical analysis are done. Finally, research findings obtained, and then compared with recent researches.

WORKPLACE BULLYING AND PERSONALITY

Workplace Bullying

Heinz Leymann used the term "mobbing" for the first time to define specific type of aggressive behaviors such as hostile and unethical communication styles directed to one employee at the workplace. According to him physical actions can be named as "workplace bullying" (Davenport, Schwartz, Eliot, 2000, p.14). However some of the researchers define two types of bullying behaviors: physical which contains physically pressure or assault their victims in some way; secondly psychological bullying that bullies use subtle, underhand strategies to undermine their victims, mentally or emotionally (Richards, Freeman, p.7).

Some researchers used the term mobbing to explain the phenomenon (like Leymann, Einarsen), some others define mobbing as a type of bullying (Tehrani, 2005, p.9), another approach to the terminology is that when the action occurs one-on-one, calls it bullying, harassment or abuse; but if it happen by the others participation then is defined as mobbing (Martin, 2001, p.31). In addition to these, like workplace aggression- Neuman & Baron, 2003 (Fox, 2005, p.439) and abusive disrespect- Hornstein, 1996 (Blase, 2002, p.674) different terms are used in the literature. Generally while European authors prefer the term bullying, Americans use both mobbing and bullying and Sweden has used victimization for the same phenomenon. Different terms are used in Turkey as well but mobbing is seen usually agreed for Turkish literature.

However workplace bullying (Westhues, 2006, p.1; Douglas, 2001, p.4) is used largely in the international studies and general idea accepting all terms synonym, in this study the way followed and workplace bullying is used to define the action.

The following definition of workplace bullying seems to be widely agreed upon (Einarsen et al., 2003, Einarsen, 2000; Einarsen and Skogstad, 1966; Leymann, 1993b; Zapf, 1999a) and it is accepted for this study: Bullying at work means; "...harassing, offending, socially excluding someone or negatively affecting someone's work tasks. In order for the label bullying (or mobbing) to be applied to a particular activity, interaction or process it has to occur repeatedly and regularly (e.g. weekly) and over a period of time (e.g. about six months). Bullying is an escalating process in the course of which the person confronted ends up in an inferior position and becomes the target of systematic negative social acts. A conflict cannot be called bullying if the incident is an isolated event or if two parties of approximately equal 'strength' are in conflict" (Einarsen, Hoel, Zapf, Cooper, 2003, p.103).

Personality

In spite of lack of universally accepted definition of personality (Ewen, 1998, p.1) most of investigators agree by the following definition; and it is the accepted definition for this study; "personality is a dynamic and organized set of characteristics possessed by a person that uniquely influences his or her cognitions, motivations, and behaviors in various situations. It can also be thought of a psychological construct- a complex abstraction that encompasses the person's unique genetic background (except in the case of identical twins) and learning history and the ways in which these factors influence his or her responses to various environments or situations. So many investigators regard the study of personality as primarily the scientific analysis of individual differences. That account for why and how people react uniquely, and often creatively, to various environmental or situational demands" (Rckyman, 2000, p.5-6).

Prevalence of Workplace Bullying

A range of studies has reported that there is a higher prevalence of bullying in public administration, health, social work, teaching and prison officers (Irish Taskforce on the prevention of Workplace Bullying, 2001; Leymann, 1996) (ACPR, p.9) our sample is one of risk sectors.

Direction of workplace bullying: Researches on the prevalence of workplace mobbing showed that downward mobbing-mobbing by a supervisor against a subordinate – is the most prevalent (Vanderkerckhove, 2006, p.53), in the study 60% of those self-identifying as bullied reported one or more supervisors as the perpetrators and research found that bullying from supervisors is more hurtful than from co-workers (Keashly & Neuman, 2005; Keashly, Neuman, & Burnazi, 2004; Schat et al., 2006) (Sandvik, 2006, p.31).

Gender: Most large-scale studies have reported fairly equal victimization rates for both men and women (Einarsen & Skogstad, 1996; Hoel & Cooper, 2000; Leymann 1992a; Varita, 1996). Gender reveals is the position and gender of bullies; generally men are bullied by male supervisors, women report being bullied by both superiors and colleagues and by both men and women in approximately equal proportions (Eriksen & Skogstad, 1996; Hoel & Cooper, 2000; Leymann, 1992b) (Salin, 2005, p.2). Most of sexual harassment derogates and rejects victims based on sex rather than solicits sexual relations with them (cf. Fitzgerald et al., 1988; Schultz, 1998; U.S. Merit Systems Protection Board, 1981, 1988, 1995). Men that endorse male dominance are more likely to harass the opposite sex, and the person who is in such environment exposes to bullying more frequently (Berdahl, 2007, p.641).

Age: Some researchers found no significant difference between young and old employees in frequency of being bullied (Quine 2002). However Einarsen and Rankes (1997), Hoel and Cooper (2000) and Quine (1999) discovered that employees at young ages were at more risk of being a victim. Contrastly to these findings, it was reported at Einarsen and Skogstad's (1996) study that older employees were exposed to being bullying more than the younger employees (Einarsen & Skogstad, 1996, p.195).

Organizational status: Researches about the role of organizational status indicated different results. In a Swedish nationwide study, senior managers were over-represented among bullying victims; the differences with regard to hierarchical position were not statistically significant (Leymann, 1992a). Beside this, in a large Finnish survey, upper white-collar employees reported somewhat more bullying than lower white-collar employees or workers (Pirainen et al., 2000). Contrastly Hoel, Cooper and Faragher (2001) based on a large-scale study in the UK although they found few differences in the experience of self-reported bullying between employees in different hierarchical positions; they indicated that workers and supervisors were more often exposed to predefined negative acts than managers. (Salin, 2005, p.2).

Lead of the studies above cited, demographic properties are asked to the participants. Differences between demographic properties and being exposed to workplace bullying are investigated by the hypothesis. "H₁: There is any difference depending on demographic variables in being exposed to workplace bullying".

The Relationship between Workplace Bullying and Victim's Personality

There are a few structured empirical researches about personality of victim (Coyne, Seigne, Randall, 2000, p.337), some researchers with different methods or scales found similar victim profiles, some others found no difference between being victim and non-victim. In the following some leading researches and their findings take place and main hypothesis is developed on the basis of the literature.

Brodsky (1976, as cited in Varita, 1996) by looking at a working context described victims as conscientious, literal-minded, paranoid, rigid, and compulsive. According to Einarsen et al. (1994) in a Norwegian survey it is found that victims coping and conflict management skills are lower than others as well as shyness contributed to being bullied. As another research Varita (1996) in a survey in Finland reported that victims were higher in neuroticism than non-victims but when work environment and climate were controlled the relation was reduced. 16PF personality profiles in a sample of 30 self-selecting Irish workplace victims were found lower in emotional stability and dominance and higher in anxiety, apprehension, and sensitivity than non-victims. Another study Zapf (1999) in German sample found that victims of bullying had pre-existing symptoms of anxiety and depression and lower social skills than others, and avoided conflict by tending to give away (Coyne, Seigne, Randall, 2000, p.337). In the study of Coyne, Seigne, and Randall (2000), 60 Irish victims of bullying, using a comprehensive measure of personality based on a Five-Factor model, is found less extroverted and independent than control sample of non-victims, in addition to this, victims are more unstable and conscientious. According to Thylefors (1987) victims could be characterized by the fact that in conflict situations they reacted in a more

active and aggressive way than non-victims. Victims of bullying at work have been shown to portray a poor self-image as well as being anxious in social situations (Einarsen, Raknes, Matthiesen, & Hellesey, 1994) (Matthiesen, Einarsen, 2001, p.469).

In addition to these researches; according to Davenport et al., interviews with victims show that the victims are exceptional individuals. They have positive qualities such as intelligence, competence, creativity, integrity, accomplishment and dedication. They are emotionally intelligent as Daniel Goleman's words. Victims have a high degree of loyalty towards their organizations and highly identified with their work or by their work. Because they are creativity, they promote new ideas which may challenge others and they are seen a threat to high-positions, so they may be seen target for bullying. Westhues, found in his study that the victims who were ganged up on tend to be trusting, naïve, politically inept, high achievers (Davenport, Schwartz, Eliot, 2000, p.70). Jacqueline Randle in his study on healthcare professionals found victims as clear thinking and proactive individuals (Randle, 2006, p.26).

Contrastly to the findings, Gandolfo's (1995) study has utilized comprehensive measures of personality. Gandolfo's sample is Americans who claimed compensation from insurance companies for harassment in the workplace. In the study victim's personality profiles were studied by means of MMPI-2 and compared with those of a control. In five of the ten personality dimensions an elevated personality was identified in the victims indicating severe psychological and emotional disturbance. The results for the non-harassed group were similar on four of these five scales in the study. Therefore in the study no significant difference between harassed and non-harassed was found (Matthiesen, Einarsen, p.469).

Victims and their spokespersons have claimed that bullying is mainly caused by the psychopathic personality of the bully (e.g. Field, 1996) (Einarsen, Hoel, Zapf, Cooper, 2003, p.165). However both bullies and victim's colleagues frequently report that the personality and manners of victim play important role in bullying (Einarsen, Raknes, Matthiesen, & Hellesoy, 1994) (Matthiesen, Einarsen, p.470). Not a few researchers are agree on that victims react and affected by differently to similar workplace bullying conduct (Davenport, Schwartz, Eliot, 2000, p.39). Moreover some characteristics within an individual may predispose victims those to be bullied (Randall, 1997). They may be selected because of their personality (Varita, 1996) that is the predatory selected the victim because he sees the lack of social skills as well as tendency to avoid conflict (Zapf, 1999), inability to cope (Einarsen, 1999). In addition to these, victim may provoke the predatory by aggressive behaviors (Einarsen, 1994) these differences is thought by some researchers as relate to whether the victim experiences predatory or dispute-related bullying. At school-based bullying provocateur victims and specific personality types of victims are reported as well (Coyne, Seigne, Randall, 2000, p.337).

As well the victim's personality can't explain the bullying behavior; it is certain that personality effects how she or he experiences and interprets incidents and possibility of mastering the problems at work (Einarsen, 2000). Victim's personality may affect the degree of the negative behavior. As Lakey, Tardiff, & Drew, 1994 stated that; although the experience of being exposed to bullying is based on a real situation, such an experience doesn't represent an objective description of the environment without the personality factor (Matthiesen, Einarsen, 2001, p.470).

After all, the main hypothesis "H₂: There is a significant relationship between personality and being exposed to workplace bullying or mobbing" is determined and investigated by questionnaire method.

RESEARCH DESIGN

The research is applied in a company in order to provide the victim's to be in the same organizational conditions. The company's total employee number is 242, and 186 valid questionnaires are used in the study. The convenience sampling method was used. The questionnaires were prepared as hard copies and a link has prepared in order to send questionnaire through e-mail to the employees' of the company. Data was collected in June 2008. The questionnaire contains three parts; the first part is asking demographic properties of participants.

The second is about personality traits; in 1975 Eysenck & Eysenck composed The Eysenck Personality Questionnaire (EPQ) (H. J. Eysenck & S. B. G Eysenck, 1990, nu 22). Because originally the full version of Eysenck Personality Profiler with 440-item was too long, shorter versions were created. The Eysenck Personality Questionnaire- Short Form (EPQR-S) is developed in 1985 by Eysenck, Eysenck & Barrett (Forrest, Lewis, Shevlin, 2000, p.580). Lastly Francis et al, in 1992 shorten to 24 questions; The Revised- Abbreviated version of the Eysenck Personality Questionnaire (EPQR-A). Some argues that the EPQR-A version's value is lower than

the longers but it's acceptable and the main advantage of the questionnaire is that it is valuable when administration time is limited, and a relatively complete description of personality is required (Francis, Jackson, 2004, p.1664) and it is translated to Turkish by Karancı et al. (Karancı, 2007, p.2). The questionnaire contains three subscales (extroversion, neuroticism, psychoticism) and by a lie subscale was designed in order to hinder subjectivity at the answering period and controlling validity. All factors contain 6 questions, at total participants answer 24 questions for the scale and the answers were yes (1) - no (0) so the points for every factor was between 0 and 6. By the cultural scales the validity and reliability for adopting Turkish literature was examined and the scale was found reliable and valid (Karancı, 2007, p.7).

The third part of questionnaire assesses negative behaviors that are exposed in the workplace, which is Workplace Bullying Questionnaire (WBQ). The questionnaire contains 36 questions; it is designed by A. Dikmen and H. Sinangil by using the Leymann Inventory of Psychological Terrorization- LIPT (www.leymann.se), Einarsen et al's Negative Act Questionnaire- NAQ (Notelaers, Einarsen, Witte, Vermunt, 2006, p.290) and interviews with employees that exposed to negative behaviors at work (Dikmen, p.26). WBQ is designed as a five- point likert type, after a pilot analysis it reduced to four points (from "never" to "about daily"). The questionnaire also contains direction of workplace bullying, as "superiors", "colleagues" and "subordinates, if participants exposed to the workplace bullying it was asked from whom by the part.

DATA ANALYSIS AND HYPOTHESES TEST RESULTS

Demographic Distribution of the Sample: Demographic profile was determined by frequency analysis; male (53,2 %), female (46,8 %), age allocations are below 30 (68.3 %), between 31 and 40 (22,6 %) and above 41 (9,1 %). Educational level was asked to participants and primary school (9,1 %), high school (30,1 %), university (52,7) and lastly (master / doctorate 8,1%). Organizational status of participants are classified as employee (50,5 %), specialist (27,4 %), supervisor (17,7 %) and manager (4,3 %).

Factor Analysis of WBQ: Factor analysis with principal component by varimax rotation, that was performed to find out the factor structure, revealed 9 factors. Because some items were below 0.45 or having collinearity with more than one factor, and some factors contain one item it was continued to perform factor analyzing by removing the items one by one till the ideal table. And totally 13 items removed, rest of the items naturally revealed 5 factors. The five factor and rested items explained 60,394 % of the total variance. Kaiser-Meyer-Olkin Measure of Sampling result was .855 (>.70) and significance level was $p = .00 (<.05)$, Bartlett's Test of Sphericity value was found 1877.618 ($df = 253$) so the result was acceptable. 5 factors found as; 1) organizational measures, 2) isolating and humiliating behaviors 3) physical violence 4) verbal violence 5) attacking on personal attributes parallel to literature. All factors' factor loadings and variance values are can be seen in Table 1. And reliability results of the factors are acceptable (Table 2). WBQ original version removed some items as we do. And when looked into international researches, Leymann found in a sample 4 and in other 5 category, Zapf found 7 category, Einarsen et al reported 5 category, and they agreed on 6 category but as it is stated, while some categories can be in some cases, some are not, because of cultural reasons or just about sample (Einarsen, Hoel, Zapf, Cooper, 2002, p.120).

Direction of Workplace Bullying: Bullying behavior's direction are asked participants and commonly victims exposed to workplace bullying by supervisors and in some factors by colleagues; rarely subordinates are reported as bully. International researches generally report supervisor bullying is more prevalent (Vanderkerckhove, 2006). The results were pictured by mean values at Table 3.

Independent T-Test and One Way Anova Results for WBQ and Demographic Variables

Gender: Whether gender is effective on being exposed to workplace bullying is investigated; independent samples t tests results didn't found any difference between genders and being exposed to workplace bullying; in literature most studies have reported fairly equal victimization rates for both men and women as well.

Age: One-way anova test was used for the variables when the difference was looked into the variable "age" and the five factor of WBQ. As it was seen from significance values, there was significance difference between dependent variable, the first factor, "organizational measures" $F = 8.325$, $p = .00 (< .05)$ and the independent variable; age (Table 4). But for the other factors of workplace bullying there was not any significant difference depending on age. When the source of the difference for factor 1 (organizational measures) is investigated, Scheffe test shows (Table 5) that the difference between ages range 1 (below 30 and 30) and ages range 2 (the ages between 31-40) $p = .003 (<.05)$, mean value was .59919451, that was significant. And similarly there was

significant difference for the first and third category (ages 41 and upper); $p = .03$ and mean was found as .66393534. Age range 1, comparing to other age ranks, was significantly effective on being exposed to workplace bullying for the factor “organizational measures”. That was *the employee whose ages were below 30 was exposed bullying more than older ones*. The same table shows at the same time that there was no significant difference for the other two age ranks. The significance between the other two age ranks were .973 ($> .05$) and mean values were .06474084. As a result our Hypothesis was accepted. In the literature different results found about age; however Einarsen and Rankes (1997), Hoel and Cooper (2000) and Quine (1999) parallelly discovered that employees at young ages were at more risk of being a victim.

Educational Level: One-way anova results for “organizational measures”, “isolating and humiliating behaviors”, “verbal violence” from the dependent variables was statistically insignificant ($p > .05$), results shows that being exposed to workplace bullying didn’t changed due to educational level for these factors (factor 1,2,4). However the significance for “physical violence” was $p = .006 (< .05)$ and $F = 4.316$ shows that this factors of workplace bullying was effected from educational level (Table 6). When looking to Post Hoc test results (Table 7) the difference was seen in detailed. There was statistically significant difference for the dependent variable “physical violence” between the educational level 1(primary school), and educational level 2 (high school), $p = .014 (< .05)$, $F = .89354137$. And educational level 1 and educational level 3(university level) was considerably different $p = .011$, $F = .86585189$ but there was not a significant difference between educational level 1 and educational level 4 (master /doctorate level). From all it could be said that *being at primary school level employee was significantly effective on being exposed to workplace bullying in the factors “physical violence” comparing to being both in high school and university level but not being at master or doctorate level*. One-way Anova results for factor 5, “attacking on personal attributes” (Table 6) were; $p = .007 (< .05)$ and $F = 4.150$ shows significance difference for this dimension; when looking into the Post Hoc results, the source of the difference could be seen (Table 7). The values between educational level 2 (high school level) and educational level 3 (university level) $p = .037$ and $F = .48117694$. *There was significant difference between the high school and university level employee on being exposed to workplace bullying on “attacking on personal attributes” factor, high school level employees are being exposed to workplace bullying more than university levels*. But the other p and F values for primary and master / doctorate level employee didn’t point to a significant difference between any variable for the “attacking on personal attributes”.

Organizational status: Because all significance values at .05 confidence level was $> .05$ there was no difference for WBQ factors depending on organizational status, that is not effective on being exposed to workplace bullying according to one-way Anova results. Literature indicates different results for organizational status, the differences with regard to hierarchical position were not statistically significant (Leymann, 1992a) in parallel with our findings.

Gender, age, educational level and organizational status are investigated for demographic hypothesis for the study. Some demographic variables such as age and educational level there are significant differences, so our hypothesis “ H_1 : There is any difference depending on demographic variables in being exposed to workplace bullying” is accepted.

Forming EPQR-A: The items of EPQR-A were calculated by compute method. The internal consistency, test-retest reliability and construct validity of the questionnaire was done by Karancı et al. in 2007 and found acceptable the values for using the scale. Because the questionnaire was designed as yes-no format, for the reliability Kuder-Richardson 20 method was used. Kuder-Richardson alpha values were seen in the table 8. The alpha values of the original Turkish version was compared to the study’s result and extroversion factor was $KR-20 = .78$ (our result was .845), lie was .64 (our result was equally .644), neuroticism was found .65 (our finding was .691), and finally psychoticism factor result was .42 (our result was .549), this refers to validity of our study. The psychoticism factor reliability result wasn’t found higher, as well as the other studies done other countries (Francis et al. 1992, Katz & Francis 2000, Lewis et al. 2002, Karancı et al. 2007). Because of generally lower results, the reason was thought to be because of expressions could be insufficient, that was not about translation (Karancı, 2007, p.7) in this study reliability coefficients are found acceptable for analysis.

Correlation Analysis for WBQ factors and EPQR-A sub-scales: Lastly correlation analysis was done to analyze the main hypothesis; the five factor of WBQ and three subscale of EPQR-A was analyzed for a statistical relation between the variables; results shows that three factors of WBQ (factor 2, 3 and 5) and EPQR-A subscales didn’t refer to any significant correlation.

As it can be seen in Table 9, neuroticism and first factor of WBQ correlation, $p = .00 (< .05)$, $r = .302$. There was a correlation between the factor 1 “organizational measures” and neuroticism. Being exposed to workplace bullying by organizational measures and being a neurotic person is positively related to each other. It can be said

as well, neurotic people are exposed to such behaviors more than others. This is parallel to some empirical studies (Varita 1996) and as found in school bullying (Byrne, 1994; Maynard & Joseph, 1997; Slee & Rigby, 1993).

In addition to this, factor 4 “verbal violence” and psychoticism results referred to statistically significant $p = .003$ ($<.05$), positive and strong relationship $r = .214$ (Table 9). So being a psychotic person and being exposed to verbal violence are in relation with each other.

The results suggest that personality traits may explain why such people target to workplace bullying or which type personality defines such behaviors as workplace bullying. In literature studies about workplace bullying are done with different scales at different dimensions, as far as we reached, because EPQR-A hasn't been used for the relation of workplace bullying, preferred for the study. The other most known scales 16 PF, Five-Factor Model and MMPI-2 were used by the researchers. But to sum up neuroticism is found as affective personality type as well as psychoticism. Our main hypothesis accepted in this condition, “H₁: There is a significant relationship between personality and being exposed to workplace bullying or mobbing. A simple figure is illustrated in the following in order to summarize the correlations.

CONCLUSION

Personality can be affective because of being subjective; while someone feels being exposed to workplace bullying by a behavior type, some other feels nothing that is, find natural the behavior; the important thing in that position is, what is felt. Because all psychological unwanted results is occurs because we felt like that, no matter what is done to us if we didn't affected from the behavior. Because everybody is part of the society and being healthy is due to every circle of the chain, every one of us is part of the problem; while someone is source, some other one is solution; some is affected directly or someone's husband effect; some is alone in the difficult situation, some loose his/ her family, friends and the most importantly loses health; moreover life. While the results are such serious, all factors should be taken into consideration.

It can be said from this study that, it is possible to be a relation between personality and being exposed to workplace bullying. The researchers are in the process of designing a commercial tool will be able to identify those most at risk of workplace bullying. By being able to identify these people, managers will be able to ensure that individuals are suitably supported by the organization; Personality results could be helpful for placing the employee to the suitable department according to risk of being exposed to workplace bullying too, so this knowledge can be helpful for healthy employee and decreasing negative atmosphere in the organization in today's and tomorrow's work life.

EXHIBITS

Table 1: Factor Analysis of Workplace Bullying Questionnaire

Factor 1: Organizational Measures:		% variance: 22,378%
Item No	Content	Item Loadings
26	I am obliged to do meaningless tasks.	.820
27	I am ordered to do pointless tasks.	.779
25	I am ordered to work overtime.	.732
29	I am ordered to work above my capacity level.	.717
22	I am ordered to work above my physical capacity level.	.715
19	My efforts directed to work have not been taken into consideration.	.689
30	At my workplace, I am exposed to verbal violence.	.656
28	Although I deserve, I am not getting upgraded.	.535
1	I am restricted to reach information necessary for my work.	.532
4	My works are not being appreciated.	.467

Factor 2: Isolating and Humiliating Behaviors:		% variance: 11,325
Item No	Content	Item Loadings
7	Appropriateness of my age to my work is being judged.	.738
6	I am criticized for working little.	.638
10	At my workplace, I feel externalized.	.608
24	I am not given responsibility about my work tasks.	.588
18	My decisions about work are questioned.	.507
Factor 3: Physical Violence:		% variance: 9,242 %
Item No	Content	Item Loadings
35	At my workplace, I am exposed to physical violence.	.849
36	At my workplace, my physical characteristics and appearance are teased.	.731
Factor 4: Verbal Violence:		% variance: 8,61%
Item No	Content	Item Loadings
23	I am exposed to sexual (verbal, visual, physical, etc.) harassment.	.729
34	At my workplace, I receive aggressive telephone calls.	.687
14	At my workplace, I receive physical violence threats.	.674
Factor 5: Attacking on Personal Attributes:		% variance: 8,488%
Item No	Content	Item Loadings
17	Some of my personal attributes are being teased.	.607
16	I am criticized about my religious and political views.	.547
15	There are rumors about me.	.496

Table 2: Alpha Reliability Scores of WBQ

	Cronbach's Alpha	N of Items
<i>Factor 1: Organizational Measures</i>	.888	10
<i>Factor 2: Isolating and Humiliating Behaviors</i>	.737	5
<i>Factor 3: Physical Violence</i>	.742	2
<i>Factor 4: Verbal Violence</i>	.629	3
<i>Factor 5: Attacking on Personal Attributes</i>	.592	3

Table 3: Direction of WBQ mean results

F1	mean	F2	mean	F3	mean	F4	mean	F5	mean
f1 sup.	,2817	f2 sup.	,1409	f3 sup.	,0349	f4 sup.	,0358	f5 sup.	,0663
f1 col.	,0731	f2 col.	,1215	f3 col.	,0565	f4 col.	,0556	f5 col.	,1470
f1 sub.	,0172	f2 sub.	,0194	f3 sub.	,0134	f4 sub.	,0125	f5 sub.	,0430

* sup. refers to supervisors; col. is colleagues and sub. infers subordinates

Table 4: One-way anova for organizational measures & age

		Sum Of Squares	df	Mean Square	F	Sig.
Organizational Measures	Between Groups	15.429	2	7.714	8.325	.000
	Within Groups	169.571	183	.927		
	Total	185.000	185			
					95%confidence	

Table 5: Post hoc test for organizational measures & age

Organizational Measures	(I)age	(j)age	Mean Difference(I-j)	Std.error	Sig.	Lower Bound	Upper Bound
	Organizational Measures	1	2	.59919451*	.17134330	.003	.1763331	1.0220559
3			.66393534*	.24860233	.030	.0504049	1.2774658
2		1	-.59919451*	.17134330	.003	-1.0220559	-.1763331
		3	.06474084	.27671148	.973	-.6181607	.7476424
3		1	-.66393534*	.24860233	.030	-1.2774658	-.0504049
		2	-.06474084	.27671148	.973	-.7476424	.6181607

*. The mean difference is significant at the .05 level

Participants ages were defined in three dimension in the analysis; age ranks 1 refers to: the ages 30 and below 30, 2 refers to the ages between 31 and 40 and the 3 was defined the ages 41 and upper 41.

Table 6: One-way anova for physical violence, attacking on personal attributes & education

		Sum Of Squares	df	Mean Square	F	Sig.
Physical Violence	Between Groups	12.288	3	4.096	4.316	.006
	Within Groups	172.712	182	.949		
	Total	185.000	185			
Attacking on Personal Attributes	Between Groups	11.846	3	3.949	4.150	.007
	Within Groups	173.154	182	.951		
	Total	185.000	185			

Table 7: Post hoc test for physical violence, attacking on personal attributes & education

	(I)edu	(j)edu	Mean Difference (I-J)	Std.error	Sig.	95%confidence	
						Lower Bound	Upper Bound
Physical Violence	1	2	.89354137*	.26975478	.014	.1323399	1.6547429
		3	.86585189*	.25593967	.011	.1436342	1.5880696
		4	.59581318	.34508898	.397	-.3779685	1.5695948
	2	1	-.89354137*	.26975478	.014	-1.6547429	-.1323399
		3	.02768948	.16318472	.999	-.4881687	.4327897
		4	-.29772819	.28321465	.776	-1.0969112	.5014548
	3	1	-.86585189*	.25593967	.011	-1.5880696	-.1436342
		2	.02768948	.16318472	.999	-.4327897	.4881687
		4	-.27003871	.27008890	.801	-1.0321831	.4921057
	4	1	-.59581318	.34508898	.397	-1.5695948	.3779685
		2	.29772819	.28321465	.776	-.5014548	1.0969112
		3	.27003871	.27008890	.801	-.4921057	1.0321831
Attacking Personal Attributes	1	2	-.18119090	.27009950	.930	-.9433652	.5809834
		3	.29998603	.25626674	.713	-.4231546	1.0231266
		4	-.38070027	.34552997	.750	-1.3557264	.5943258
	2	1	.18119090	.27009950	.930	-.5809834	.9433652
		3	.48117694*	.16339326	.037	.0201093	.9422446
		4	-.19950937	.28357658	.920	-.9997136	.6006949
	3	1	-.29998603	.25626674	.713	-1.0231266	.4231546
		2	-.48117694*	.16339326	.037	-.9422446	-.0201093
		4	-.68068631	.27043406	.100	-1.4438046	.0824320
	4	1	.38070027	.34552997	.750	-.5943258	1.3557264
		2	.19950937	.28357658	.920	-.6006949	.9997136
		3	.68068631	.27043406	.100	-.0824320	1.4438046

*. The mean difference is significant at the .05 level.

Educational level was defined in 4 categories; and numbers from 1 to 4 given in the analysis for these categories; number 1 refers to Primary school, 2 was used for High school, 3 was for University and 4 refers to Master or Doctorate level.

Table 8: Alpha Reliability Scores of EPQR-A

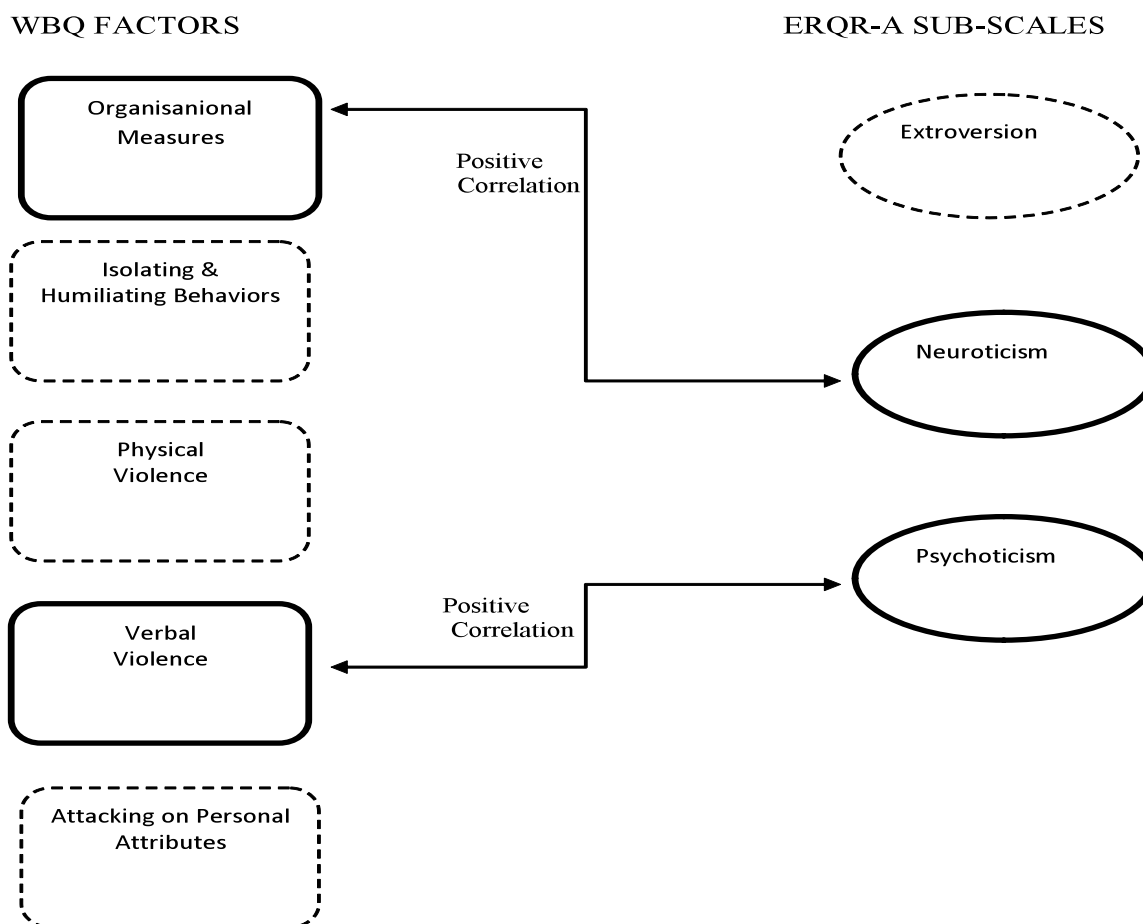
	Kuder-Richardson alpha	N of Items
<i>Factor 1: Extroversion</i>	.845	6
<i>Factor 2: Lie</i>	.644	6
<i>Factor 3: Neuroticism</i>	.691	6
<i>Factor 4: Psychoticism</i>	.549	6

Table 9: Correlation Results for Scales

	Extroversion	Neuroticism	Psychoticism
<i>F1: Organizational Measures</i>	,021	,302**	,042
<i>F2: Isolating and Humiliating Behaviors</i>	,037	,074	,031
<i>F3: Physical Violence</i>	-,115	,119	,037
<i>F4: Verbal Violence</i>	,043	,101	,214**
<i>F5: Attacking on Personal Attributes</i>	-,061	-,054	,117

Sig. (2-tailed) p < .001 = **; p < .05 = * ; boldface indicates significant correlations between variables.

FIGURE: The correlation results between WBQ factors and EPQR-A subscales of the sample



NOTE:

“ ” is representatives the factors that have correlation with other scales factor/s.

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INVESTIGATING CORPORATE SOCIAL RESPONSIBILITY OF TURKISH COMPANY WEBSITES THROUGH CONTENT ANALYSIS

Deniz KAĞNICIOĞLU
Anadolu University, Turkey

ABSTRACT

Corporate social responsibility (CSR) has become a much-discussed subject in the business world. The internet has become one of the basic tools for CSR information disclosure. This study focused on companies interested in documenting their commitment to CSR or related concepts. To assess how their CSR initiatives are communicated online, The Fortune 500 (www.fortuneturkey.com/fortune500_main.asp) which is a list ordering the country's largest corporation according to their sales revenues and includes manufacturing, commerce and service sector were used as sample in Turkey. The results of the study revealed that of CSR do not have great importance for Turkish companies yet. The findings indicate that the number of companies with CSR information on their websites is quite low and these leading companies do not use the websites to their advantage in terms of CSR communication.

Keywords: *Corporate social responsibility; Global Reporting Initiative (GRI); corporate websites; content analysis; Turkey.*

INTRODUCTION

Corporate social responsibility (CSR) is one of the much discussed subjects in the business world. Since the 1990s, individual stakeholders and non-governmental organizations (NGOs) have increasingly called for companies to act in a socially responsible way. Companies are no longer assessed solely on the financial gains achieved for shareholders but also on the contributions they make to stakeholders and society (Schafer, 2005:108).

While corporate social responsibility is increasingly attracting attention from the business world, a number of issues have arisen, such as CSR communication. According to Morsing and Schultz (2006:323), messages regarding corporate ethics and social initiative have the power to awake strong positive reactions among stakeholders. As a result, corporations are increasingly concerned with communicating to diversity of stakeholder group in an ethical and responsible fashion (Wanderly et al., 2008:370).

Companies can use their website, sustainability reports, advertising campaigns on television, billboards as communication tools for voluntary disclosure of non-financial information, such as ethical behavior, to their various stakeholders, including share holders, employees, customers, suppliers, media, and the government and to develop a particular brand image for the organization (Waller, Lanis, 2007:2). Corporate websites is increasingly becoming the main tools for communicating the economic, environmental and social goals of the corporation, for mobilizing stakeholder support, and for enhancing the reputation of the firm (Paul, 2008:64). In one of the first studies of corporate websites, Smith and Taffler (1992:98) found a positive relationship between the clarity of a firm's website and its financial performance. Etridge et al. (2002:367) found corporate websites used to attract investors, while Willis (2003:34) found them used in the social screening of investments.

Unlike traditional media (newspapers, magazines, billboards, television and radio), the internet allows the company to publicize detailed, up to date information. Moreover, the information remains permanently available on the web, allowing the Internet user to choose which subject he/she wants to access and as often as he/she

wishes. It allows companies to publicize more information less expensively and faster than ever before. Corporate websites provide an official perspective regarding CSR within the corporation for all its stakeholders.

There is a growing awareness of the importance of corporate social responsibility in Turkey. According to a survey which was conducted by Akgeyik (2005:2), the Turkish companies are getting more interesting in corporate social responsibility activities. Companies in Turkey try to integrate CSR into their mainstream business strategy. Both the international issues and the economic and social crises in Turkey created an environment for the discussion of CSR where business had the major role to play and the civil society to monitor and benefit. This paper investigates the ways in which the top 100 companies of Fortune 500 in Turkey disclose information on CSR through their corporate websites. A further aim is to determine whether there is any link between CSR information disclosure and industry sector.

CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

There has been a radical change in the relationship between business and society since 1990s. Key factors of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation. CSR is a response to contemporary circumstances of globalization, in which capitalism is expected to play a social role rather than merely making profits for business owners (Wanderley et al., 2008:371).

The relationship between companies and civil society organizations has moved on from paternalistic philanthropy to reexaminations of the roles, rights and responsibilities of business in society. (Mamun, Ahmed, 2009:633). Milton Friedman contributed to the creation of a general CSR Theory by asking questions such as “Should companies take responsibility for social issues?” According to Friedman, there is only one type of social responsibility: using resources and engaging in activities designed to increase profits so long as it stays within the rules that have been identified (Kok, et al., 2001:287). Consequently, the use of organizational resources for the larger good is detrimental to the firms since it may decrease profitability or increase product prices or both (Pinkston, Carrol, 1996:202). However, business organizations have some obligations to the society, as they created some of the problems in their competition races, and these problems need to be addressed properly. So, corporate executives, employees, shareholders, consumers and other publics interested about business operations, today expect organizations to be engaged in some social issues like: reasonable price and quality living of consumer and employee, fair wage, employee safety, fair advertisement, etc (Waddock, 2004:13,14).

Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth, increase competitiveness and ensuring at the same time environmental protection and promoting social rights (Mamun, Ahmed, 2009:634). Thus, CSR is a concept whereby companies integrate social and environmental concerns on their business activities. There are three levels of CSR for looking at social responsibility from the point of view of the company

- Minimum legal compliance: managers comply with the minimum social requirements of the law.
- Enlightened self –interest: managers use social responsibility programs as a strategic weapon to communicate to the market that they are better than their competitors. The interest in social responsibility is expected to give long-term profitability.
- Proactive change: managers use its assets actively to improve society independent of a direct benefit to the firm; they are taking positions far beyond the requirements of the law (Kok, et al., 2001:287).

The operationalisation of social responsibility requires that its meaning is considered. Academic literature contains many definitions of CSR. According to Mosley (et al, 1996) “Corporate social responsibility refers to management’s obligation to set policies, make decisions and follow courses of action beyond the requirements of the law that are desirable in terms of the values and objectives of society”. Kok (et al, 2001:287) defines CSR as “the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society at large and improving welfare of society at large independently of direct gains of the company.”

The definition of CSR used in this study is taken from Green paper in 2001 by European Commission. According to Green paper “Being socially responsible means not only fulfilling the applicable legal obligations, but also going beyond compliance and investing "more" into human capital, the environment and relations with stakeholders.” Jenkins (2004) mentioned that CSR activities provide businesses with the advantages of an improved image and reputation, an improved trust, a more prominent profile, a better market position, more

business, increased employee motivation, increased attractiveness to potential recruits, cost savings and increased efficiency, and an improved company culture. Companies are facing more clearly articulated expectations from customers and consumers regarding their contributions to sustainable development, which puts pressure on them to maintain transparency and be proactive in communicating with their publics. The need for a proactive communication approach in the global economy is considered as central to corporate reputation and relationship building (Chaudhi, Wang, 2007:235).

Reporting is a necessity if companies are to know and understand their social and environmental impacts. These companies that disclose information regarding this topic have to follow the international guidelines. Because the non-financial reporting has known a fast growing, in 1997 the Global Reporting Initiative was developed by the Coalition for Environmentally Responsible Economies and the Tellus Institute through a joint project. Supported also by the United Nations Environment Program, the GRI (Global Reporting Initiative) promotes the international harmonization of reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making. The GRI have developed and disseminate a globally harmonized reporting framework for so called sustainability reporting, or non-financial reporting (NFR). In 2006, after a development process involving thousands of stakeholders worldwide GRI released the third iteration of its Sustainability Reporting Guidelines (G3 Guidelines).

While corporations want stakeholders to be aware that they are socially responsible, they are reticent about communicating their actions. However, stakeholders want to find out about the corporations behind the brands and products they purchase (Wanderley, et al, 2008:370). The internet is gaining ground as a new communication for companies to present themselves as socially responsible. The need for transparent and proactive communication of CSR is a key issue of concern. According to Esrock and Leichty (1999), corporate web sites allow companies to engage in multi-stakeholder dialogue, a practical challenge of CSR communication. While web sites provide an option for corporations to set and present an agenda on CSR, corporations are not using internet for their CSR communication effectively. According to a 2004 CSR Online Survey of Financial Times Stock Exchange companies, although many companies included CSR information on their web sites, “all too often, CSR material is hidden in hard to reach places, or presented in huge PDF downloads (Coope, 2004).

Since the corporate web sites’ visitors have diverse interests; its format requires some attention to the likely competing interests of its broad readership. With interest from diverse stakeholders, the remit of communicating with the web site reader is a complex one. Hence, a communicative form has creative potential for both the individual and organizing process (Coupland, 2005:356). The web can certainly be used to share information, but it can also serve as a catalyst for discussion and change (Lee, et al, 2009:144).

SOCIAL RESPONSIBILITY IN TURKEY

While CSR is newly understood concept in developed countries, it is not surprise for developing countries to face some obstacles to CSR. Wanderley (et al, 2008:370) states a number of factors which prevent the development of CSR in developing countries as civil society is not well organized, the government does not face strong, constant pressure; and the press has yet to assume the role of CSR. According to Kemp (2001), institutions, standards and systems, which are the foundation of CSR in Europe and the USA, are comparatively weak in developing countries.

In Turkey, academic researches about CSR are still limited, but there is some evidence that confirm these statements for Turkey. According to Ararat (2005:253), most of the institutional driving forces for CSR, including the legal framework, societal and organizational culture and market mechanisms through CSR are not sufficiently developed, and variables for non market institutions such as non-governmental organizations (NGO) activity and academic research and teaching are not yet mature enough. Environics International conducted a global study in 2001 and found that Turkish consumers value business ethics, labor practices, and environmental impacts and demonstrated social responsibility much less than brand quality when forming an impression of a company. Another survey conducted by Açıgil also found that 53 % of the managers would not give priority to ethical considerations if these would negatively impact economic performance (Ararat, 2005:253).

According to Turkey Corporate Social Responsibility Baseline Report (Göçenoğlu, Onan, 2008:58) which was conducted for European Commission and The United Nations Development Programme, awareness of the importance of corporate social responsibility is growing in Turkey. Both the international issues and the economic and social crises in Turkey created an environment for the discussion of CSR where business had the

major role to play and the civil society to monitor and benefit. In the recent years, the adjustments of Turkish Association Law to the European Union accelerated the change processes in the NGOs and created a better environment for civil participation. Multinational companies also positively affect the CSR practices in Turkey. The MNCs put positive pressure to their local branches and their suppliers, and this process set trend for Turkish companies.

Both Göcenöglü and Onan (2008:58,59) and Ararat (2005:253) emphasized that CSR in Turkey is supported by external drivers such as the international organizations and NGOs. Local initiatives such as NGOs and customers are needed to be developed and encouraged to create pressure on companies. CSR as a component of corporate reputation in Turkey has been in an increase since 1999. According to a survey which was conducted by Akgeyik (2005:2) the Turkish companies are getting more interesting in corporate social responsibility activities. Companies in Turkey try to integrate CSR into their mainstream business strategy. Akgeyik (2005:2) found that improving the company's image is the basic reason of CSR in Turkey. As corporate social responsibility practices are different between developed and developing countries, the nature and patterns of company information about CSR vary between different sectors. Besides that the literature has provided little empirical examination of patterns of corporate social responsibility in Turkey. For this reason this study aims on current situation of social responsibility practices as qualitative and quantitative indicators in Turkey.

METHOD

To assess how their CSR initiatives are communicated online, The Fortune 500 (www.fortuneturkey.com/fortune500_main.asp) which is a list ordering the country's largest corporation according to their sales revenues and includes manufacturing, commerce and service sector were used as sample in Turkey. The corporate websites of the top 100 companies of Fortune 500 were analyzed. The search was limited to websites areas that directly referred to the responsibilities and commitment of the company either to society in general, or specific stakeholder groups. Links to these relevant areas were searched for either in the home page or in a section providing general company information (Maignan, Ralston, 2002:6). The array of terminology used in the broad CSR range consists of corporate social responsibility, social responsibility, corporate citizenship, corporate responsibility, stakeholder engagement, and community development. In order to establish a set of indicators for CSR information disclosure on the web, content analysis of corporate websites was applied. Corporate websites were examined for terms and concepts drawing from Paul (2008:67), Chaudhri and Wang's (2007:237), listed below starting from the more general, to the intermediate level, to the specific:

- stakeholders
- social responsibility/corporate social responsibility
- sustainability
- citizenship/corporate citizenship
- CSR report
- CSR project
- Code of conduct/code of ethic
- CSR partnership
- United Nations Global Compact
- Global Reporting Initiative (GRI)
- Social responsible investment
- human rights
- environment
- awards/ sponsorship
- labor
- productivity
- society
- supplier

One of the most important principles of CSR is reporting that complies with international standards and that satisfies the stakeholder expectations concerning its social, economic and environmental responsibilities. Consequently, in this study, CSR reports also were analyzed to discover the disclosure of the CSR performance indicators drawing from GRI G3 Reporting Guidelines. As CSR performance indicators, environment, working life, human rights and product responsibility were chosen to asses CSR reports. Economic performance was excluded as an indicator in this study.

FINDINGS

The websites of each of the 100 companies were analyzed for the terms and concepts identified from previous studies. If a company did not have any CSR information on its corporate Web site, the companies were excluded from the analysis. Of the 100 companies identified as the sample, 74 were subjected to further analysis because 26 companies' web sites did not mention any of terms and concepts for CSR information. Of the 74 companies, 39 (53%) had the primary link for CSR on their corporate home page.

Companies producing or marketing consumer goods were expected to mention these terms more frequently than companies producing industrial or commercial products, since a reputation of social responsibility might be expected to be more important when marketing to consumers than when marketing to businesses. Companies in newer, high- tech fields were expected to have more frequent use of these terms than companies in agriculture or industrial fields, because the newer companies would have been more influenced by recently developed thinking on CSR and similar topics (Paul, 2008:68). For evaluating if there is a difference among sectors based on CSR information on web sites, the companies were categorized under 13 sectors which was derived from statistics of Ministry of Labor and Social Security. As seen from the table, of the 100 companies 25 were multinational and 75 were domestic companies. This information was used to compare domestic companies' CSR information with multinationals' on their web sites.

Striking point of Table 1 is that number of companies which had no information on CSR quite high, approximately 25 % of the total. Especially technology and communication field is quite high which is reverse what was expected. Moreover, it is remarkable that 26 of companies which had no information on CSR, only two of them were multinational companies. It means that 75 of domestic companies, 24 of them (33%) had nothing about CSR on their corporate web sites. 92 percent of the multinational companies have mentioned CSR on their websites. So, 23 multinational and 51 Turkish companies were analyzed to assess how their CSR initiatives communicated online

Table 1. Companies by CSR Information on Their Web Sites

SECTOR	CSR Information	Non CSR Information	% of companies including CSR	TOTAL
Petroleum, Chemical and Rubber	13	3	81	16
Technology and telecommunication	7	5	58	12
Metal	12	4	75	16
Transportation	2	3	40	5
Food	7	3	70	10
Energy	3	1	75	4
Commercial/retail	10	4	71	14
Automotive	6	-	100	6
Mining	3	1	75	4
Agriculture and forestry	-	2	0	2
Construction/cement	7	-	100	7
Textile	1	-	100	1
Health	3	-	100	3
TOTAL	74	26	74	100

As it is seen from the table, the lowest percentage for CSR information is agriculture and forestry (0%). Transportation (40%) and Technology and telecommunication (58%) have the next lowest percentages for CSR information. Surprisingly, CSR information in industry/manufacturing is higher than the service sector like telecommunication and transportation.

Table 2. Companies by Sector and Origin

SECTOR	DOMESTIC	MULTINATIONAL	TOTAL
Petroleum, Chemical and Rubber	7	9	16
Technology and telecommunication	10	2	12
Metal	14	2	16
Transportation	5	-	5

Food	6	4	10
Energy	4	-	4
Commercial/retail	11	3	14
Automotive	3	3	6
Mining	4	-	4
Agriculture and forestry	2	-	2
Construction/cement	6	1	7
Textile	1	-	1
Health	2	1	3
TOTAL	75	25	100

Of the 74 companies, 39 had the primary link for CSR on their corporate home page. Among the companies that had a link on their home page, 25 were domestic (64%) and 14 were multinational companies (36%). These web links were named differently. The most frequently used ones are social responsibility and corporate social responsibility, sustainability followed them as web link. Social investments, corporate governance, contribution to society were some other statements preferred by companies.

According to Paul (2008:70), the number of coded terms used in any website should be considered, since these terms are most frequently found in the literature and tend to provide the basic philosophical orientation of company. In this study, the maximum number of times these concepts were observed in a company was 17 which were found just only one websites of a company in industrial fields. None of the websites include all of 18 items. The frequency of these terms is shown in Table 3.

Table 3. Number of Different Coded Terms Observed in Website

Number of terms in website	Number of companies
0	26
1	12
2	12
3	9
4	5
5	7
6	5
7	3
8	2
9	2
10	1
11	1
12	5
13	6
14	2
15	2
16	1
17	1

Table 4 shows the total distributions of terms and concepts on the websites. Social responsibility/corporate social responsibility/ corporate responsibility were the most frequently observed term. If stakeholder and sustainability were considered the main concepts of CSR, it is possible to mention that it was hard to find basic instruments of CSR in Turkish companies. All 23 multinational companies having CSR information on their websites mentioned social responsibility or corporate social responsibility and 9 of them mentioned it along with stakeholder. 51 of the Turkish companies having CSR information on their web sites, 34 mentioned social responsibility or corporate social responsibility and 15 mentioned stakeholder. The number of Turkish companies mentioned both concepts were 14. Only 7 Turkish companies were mentioned all three concepts together: social responsibility, stakeholder and sustainability. It is quite remarkable that sustainability was not preferred concept for both Turkish and multinational companies although environment got the highest score as a CSR indicator. Of 74 companies, 21 mentioned sustainability, 11 of them are Turkish companies the rest of them (10) are multinational companies. It could be suggested that “sustainability” might not become the preferred term in the future.

Further examination of the corporate websites brought out some trends in CSR perception of the companies in Turkey. Nowadays, stakeholders need more information than the one provided by the financial statements. There exist growing requirements for companies to not only disclose financial information by financial statements, but also non-financial information such as social and environmental impacts of their activities. This study revealed that Turkish companies are not aware of the importance of CSR reporting. Of 51 Turkish companies, only 7(14%) reported their CSR activities and 2(4%) of them used GRI G3 Guidelines as the reporting framework. In Turkey, CSR reporting has no framework and has not been yet regulated at national level. It is interesting to see that even if Turkish companies did not mention sustainability term on their websites, they called non financial reports as “Sustainability Report”. A few companies disclose information regarding CSR gave place to financial or annual reports.

Table 4. CSR Terms and Concepts Used by Companies

Terms and Concepts	Number of Companies Using Term and Concepts
Stakeholders	24
Social responsibility/corporate social responsibility	57
Sustainability	21
Citizenship/corporate citizenship	2
CSR report	16
CSR project	29
Code of conduct/code of ethic	13
CSR partnership	19
United Nations Global Compact	14
Gobal Reporting Initiative (GRI)	8
Social responsibility investment	14
Human rights	15
Environment	54
Awards/ sponsorship	50
Labour	24
Productivity	21
Community	38
Supplier	17

Community issues were the most mentioned concept by Turkish companies concerning CSR. While 21 Turkish companies (41%) referred community on their websites, the protection of the environment was the issue by far most mentioned by 33 Turkish companies (65%). For Turkish companies, CSR works rather as a public relations tool and they presented sponsorships and donations as CSR initiatives. Turkish companies seemed eager to present them as social responsibility process. Education, arts sport and culture were the issues which companies tended to pay most attention in their promotional CSR activities. Labour relations and work conditions were not the one of the main issues of CSR for Turkish companies. And there is not so much information about human rights and labour relations. The majority of companies focuses this issue on giving information about employee health and safety. Just 15 companies of which 6 Turkish and 9 multinational (20%), mentioned human rights on their websites.

UN Global Compact is one of the most important international criteria for CSR activities. Of 51 Turkish companies, only 6(12%) referred UN Global Compact on their web pages. Moreover these companies referring this also mentioned many of CSR indicators like human rigths, environment, labor rigths and product and supplier responsibility. International documents are good motivators for companies to emphasize CSR initiatives broadly.

The expectations about the salience of these terms and concepts for consumer- oriented companies versus business-oriented companies were not realized. This study confirms the findings of Paul (2008:71) that many of the websites with a large number of coded items were industrial and manufacturing companies. Moreover, high-tech companies were not particularly exemplary in mentioning the coded topics, as had been anticipated. For instance, 5 of 12 companies do not mentioned CSR on their websites and many of the Turkish companies which

signed the UN Global Compact were industrial and manufacturing companies. Supplier responsibilities were mentioned by only 6 Turkish companies. It could be stated that when presenting CSR initiatives, companies referred community, employees and customers.

CONCLUSION

It is clear that the corporate commitment to social responsibility is no longer an option but rather an expectation or even a requirement in the near future. This study focused on companies interested in documenting their commitment to CSR or related concepts. First, while the sample does not allow generalizations about Turkish companies, it is possible to state that the number of companies that have CSR information on their Web sites is strikingly low. Our survey of the companies listed on Fortune 500 actively showed that disclosure of CSR information does not generally belong to the strengths of Turkish companies at the present.

It is possible to say that issues of CSR do not have great importance for Turkish companies yet. On the other hand, the information on the topics highly dispersed and that the level of the presence of the various related themes is not uniform across websites. Capriotti and Moreno (2007:233) emphasized the same findings for Spanish companies. The reason for the divergence between the importance that is granted to corporate responsibility and dispersion and heterogeneity of the information on this topic that is placed on corporate websites may be that most of the companies present a reduced conception of corporate responsibility, focusing primarily on issues of social and environmental action, rather than reflecting a broad understanding of concept.

The basic instruments of CSR, such as codes of conducts and social responsibility reporting are hard to find in Turkish companies. For this moment, CSR is preferred as public relations tool for companies and the concept has slowly spread among Turkish companies. Results of this study revealed that charity programs were most popular for the community involvement dimension followed by cash donation programs. Product development and quality assurance is the largest part engaged in the product responsibility dimension of CSR. Pollution control was broadly reported in environmental dimension. Referring to CSR dimensions, environmental dimension has the highest score. The community involvement is the second highest, followed by labor and product dimension. These findings reveal that Turkish companies are more concerned with environment than for the other dimensions of CSR. While protection of the environment and education remain a top priority for a large majority of companies, these issues are not overtaken as CSR issues.

This study also revealed that although multinational companies' CSR performance is better than Turkish companies', CSR presentations of them on the websites are not good enough. This result confirm that a global company with operations in both developing and developed economies is likely to communicate more extensively in the developed region as opposed to the lesser developed market (Chaudhri and Wang, 2007:243).

Silberhorn, Warren and Marsteller (2007:358) mentioned that external pressures and an increasing awareness among companies of their regular business activities' impact is the major driver for large companies to communicate a considerably broader CSR notion. According to a research (Ararat, 2005:254) Turkish managers do not differentiate between legal and ethical responsibility and they still think that customers are the most important stakeholders of companies. As Saleh (2009:136) emphasized, it is highly recommended that future studies should also collect primary data through interviews because the CSR perceptions of managers could be the main reason of insufficiency for disclosing CSR in Turkish firms.

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THE RELATIONSHIP BETWEEN PERCEPTIONS OF ETHICAL CLIMATE TYPES AND AFFECTIVE COMMITMENT: THE CASE OF TURKISH HOTEL EMPLOYEES

Adem Ogut
Selcuk University, Turkey

Metin Kaplan
Nevsehir University, Turkey

ABSTRACT

Affective commitment is crucial to hotel businesses due to the critical role that employees play in the provision of hospitality services. In this study, we investigate the relationship between ethical climate types (caring, law and code, rules, instrumentalism and independence) and affective commitment in hotel businesses in Cappadocia. The findings of the research indicated that caring, law and code and rules were positively and significantly correlated with affective commitment. According to correlation analysis; on the other hand, negative relationship between instrumentalism and affective commitment was revealed. No significant relationship between independence and affective commitment was found out. Regression analysis results show that caring and rules had positive effect on affective commitment while instrumentalism had negative effect on affective commitment. Moreover, practical implications are discussed, and suggestions for the future research are made.

Key words: *Ethical Climate, Affective Commitment, Hotel Businesses*

INTRODUCTION

Hotel businesses having various client characteristics should plan and manage the human resources effectively by means of coordinating different services such as main, supporting and facilitating simultaneously in the rapidly developing environmental conditions. Obtaining sustainable competition advantage is based on the effective utilization of human capital they have in current business condition where competitors imitate physical components easily. Therefore, providing affective commitment has crucial prominence. Since the output of services basically depend on human performance, this situation is much more vital for hotel business.

Formation of affective commitment is based on some individual and organizational antecedents. This study focuses on perceptions of ethical climate which is a prerequisite of sustaining organizational continuance in terms of adapting newly employed staff, developing efficiency and productivity of current employees, and required integration between the employees and the organization.

In this frame, the aim of the study is to investigate the relationship between ethical climate types (caring, law and code, rules, instrumentalism, and independence) and affective commitment in the hotel businesses of Cappadocia.

Ethical Climate

The ethical climate is a component of the general organizational climate and has been described as ‘the shared perceptions of what ethically correct behaviour is and how ethical issues should be handled’ (Elçi and Alpkın, 2009: 298). Ethical climate is a concept that describes the shared perception of organizational norms, values and behaviour (Rasmussen et al., 2003: 85). A firm's ethical climate refers to the prevailing attitudes about the firm's standards concerning appropriate conduct within the firm (Kelley and Dorsch, 1991: 56) and reflects employee perceptions of morally appropriate actions and policies observed in the workplace (Lopez et al., 2009: 595). Ethical work climate is a holistic construct which encompasses the catalogue of organizational socio-moral factors (Ruppel and Harrington, 2000: 314).

Victor and Cullen's (1988) ethical decision making framework describes theoretical ethical climates that are based on two dimensions: ethical criterion and locus of analysis (Weber and Seger, 2002: 72). Figure.1 shows ethical climate types according to a two-dimensional typology. **The first dimension** represents the ethical criteria used for decision-making inside an organization. 'Egoism' is characterized by decisions intended to maximize self-interest, 'benevolence' is characterized by decisions that aim to maximize joint interest, while 'principle' is characterized by decisions, which adhere to rules, laws, and standards in the normative expectations of a social unit (Kim and Miller, 2008: 942-943). The **second dimension** represents the locus of analysis used as a reference point in ethical decisions (Weber, 1995: 512). At the individual level, the ethical climate of the organization supports an individual-level source for normative standards regarding ethical reasoning. The local level is supported by organizational norms favoring reference groups within the organization itself. The cosmopolitan ethical climate is supported by norms favoring external sources for ethical reasoning (Barnett and Vaicys, 2000: 352).

FIGURE 1

As shown in Figure 1, a firm's ethical climate can be characterized in terms of five theoretically based and empirically supported dimensions: caring, law and code, rules, instrumentalism, and independence (Victor and Cullen, 1988: 111-113). The dimensions are defined as follows:

Caring: A caring climate is utilitarian based where employees have a sincere interest in the well being of others inside and outside the organization (Deshpande et al., 2000: 212) and pertains to displays of kindness toward the employees, the firm, and the world (Kelley and Dorsch, 1991: 56). At work, caring climate reflects concern for all organizational stakeholders affected by their decisions (Shapira-Lishchinsky and Rosenblatt, 2009: 719). Studies assessing an employee's preferred work climate most frequently indicate favor for a caring climate (Martin and Cullen, 2006: 179).

Law and Codes: Employees in a law and code ethical climate are expected to adhere strictly to the codes and regulations of their profession or government (Wimbush et al., 1997: 68). Organizations guided by law and codes accommodated external standards and principles in decision making (Suar and Khuntia, 2004: 12).

Rules: In rules ethical work climate, the principles employed are company based (i.e. company policies, procedures, rules, norms) (Wyld and Jones, 1997: 467). Employees are expected to adhere precisely to the rules and imperatives of their organization or departments (Erben and Güneşer, 2008: 959). Organizational decisions are guided by a set of local rules or standards such as codes of conduct (Tsai and Huang, 2008: 567).

Instrumentalism: The instrumental climate involves the egoistic criterion and is primarily based on the maximization of self-interest (Tsai and Huang, 2008: 567). In an instrumental climate, employees look out for their own self interest (Deshpande et al., 2000: 212), first and foremost, even to the exclusion of interest of others who may be affected by their decisions (Wimbush et al., 1997: 68). Actors perceiving an instrumental ethical climate see their organizational unit as having norms and expectations that encourage ethical decision-making from an egoistic perspective (Martin and Cullen, 2006: 178).

Independence: This dimension concerns the individual's personal rules of acceptable behavior (Kelley and Dorsch, 1991: 56). In an independent climate, individual standard of moral judgment provided the criteria for decision making (Suar and Khuntia, 2004: 12).

Ethical climate has various functions in organizations. Perceptions of ethical climates increase affective commitment (Tsai and Huang, 2008), achievement level of dealing with ethical issues (Bartels et al., 1998), organizational citizenship behaviour (Elçi, 2005), job satisfaction (Elçi and Alpkın, 2009), supervisory trust (Mulki et al., 2006) and performance (Weeks et al., 2004) while decreasing intent to leave (Schwepker Jr., 2001), and role conflict (Schwepker Jr. and Hartline, 2005).

Ethical climate is likely to influence employees' work behavior. The types of ethical climates existing in an organization or group influence what ethical conflicts are considered, the process by which such conflicts are resolved, and the characteristics of their resolution. For example "socio-moral atmosphere" of an organization has a significant impact on the moral decision making of individuals (Victor and Cullen, 1988: 105). The more employees perceived their organizations as showing concern for ethics, acting ethically and rewarding ethical behavior, the more positive was the resulting influence on their commitment to organizations (Suar and Khuntia, 2004: 12).

Affective Commitment

Affective commitment refers to the employee's emotional attachment to, identification with, and involvement in the organization (Allen and Meyer, 1990: 2). Affective commitment is the extent to which employees are involved with and have attached emotionally to their organizations because they identify with the goals and values of their organizations (Addae et al., 2008: 569).

Affective commitment is the affective bond an individual feels toward the organization, characterized by identification and involvement with the organization as well as enjoyment in being a member of the organization (Bergman, 2006: 646). Individuals with a high level of affective commitment continue to work for an organization because they *want to* (Meyer and Allen, 1997: 11).

Affective commitment develops mainly from positive work experiences, such as job satisfaction and organizational fairness, and is associated with desirable outcomes, such as higher levels of organizational citizenship behaviors, and lower levels of withdrawal behaviors like absenteeism and tardiness (Wasti, 2002: 526).

Affective commitment has the strongest bearing to the hospitality industry due to the critical role that employees play in the provision of hospitality services (Curtis et al., 2009: 254-255). In this context, the research objective of this study is to investigate the relationship between ethical climate types (caring, law and code, rules, instrumental and independence) and affective commitment in tourism industry.

There have been few studies which have demonstrated the relationship between ethical climate types and affective commitment. Suar and Khuntia (2004) investigated the effect of ethical climate on organizational commitment and administrators' performance in two public sector and two private sector manufacturing industries located in eastern India. According to the results caring had positive effect on affective commitment and administrative performance. Tsai and Huang (2008) found out positive relationship between instrumentalism and continuance commitment, on the contrary negative relationship between instrumentalism and affective commitment in the research on nurses employed in Taiwan. Another result of the study showed that caring and rules have positive correlation with normative commitment. On the other hand, results indicate that although low and code has the highest rate, it has no effects on organizational commitment.

Shafer (2009) investigated the relationship between the ethical climate, organizational-professional conflict and affective organizational commitment in Chinese certified public accounting firms. According to the results, there is negative and significant correlation between egoistic/individual climate and affective commitment while benevolent/cosmopolitan and principle/cosmopolitan correlate with affective commitment positively and significantly. On the other hand, no relationship between egoistic/local climate and affective commitment was found out.

In the light of these findings, the following hypothesis will be tested:

- H1:** There is a positive relationship between caring and affective commitment.
- H2:** There is a positive relationship between law and code and affective commitment.
- H3:** There is a positive relationship between rules and affective commitment.
- H4:** There is a negative relationship between instrumentalism and affective commitment.
- H5:** There is a positive relationship between independence and affective commitment.

METHODOLOGY

Sample

The sampling consists of middle managers and employees in hotel businesses licensed by the Tourism Ministry in the Cappadocia Region, Turkey. 20 hotels (five-star, four-star) take place in the region of Cappadocia. Nearly 967 middle managers and employees are estimated to serve in these hotels. 967 questionnaires were distributed. 413 questionnaires were returned. This represented an overall response rate of 43%. This rate is an acceptable response rate for this kind of study (Pierce and Henry, 1996).

The sample consisted of 27.4 percent females and 72.4 percent males. Almost 77.7 percent of the respondents were younger than 35 years old. 59.8 percent of the respondents were married and 40.2 percent were single. In

terms of educational levels, 22.0% of the respondents had graduated from primary school, 53.5% from secondary school, 15.3% from high school, 8.5% held Bachelor of Science degrees, and 0.7% had Master's degrees. Furthermore, nearly half of the participants completed the tourism and hotel management training (49.6%). Respondents held a variety of positions in hotel businesses. They included middle manager (19.4%) and employees (80.6%). When star classifications of the hotels are taken into consideration, it is seen that the participants to the survey are employed in four star hotels (62.5%) and five star hotels (37.5%). 38.5% of the respondents had more than 3 years of job experience in the present hotels.

Measures

A questionnaire was structured to gather primary data from middle managers and employees in hotel businesses. Affective commitment was designated as the dependent variable in this study, while ethical climate types (caring, law and code, rules, instrumentalism and independence) were considered as the independent variables. To measure ethical climate types, we used the 26 items Ethical Climate Questionnaire (ECQ) developed by Victor and Cullen (1988). The items were classified in terms of the five dimensions of caring, law and code, rules, instrumentalism and independence. Participants responded on a 5-point Likert-type scale dictating to the extent which they agreed with each statement as it reflected their present work environment (1= strongly disagree, 5= strongly agree). Cronbach's alphas were as follows: 0.84 for caring, 0.86 for law and code, 0.89 for rules, 0.75 for instrumentalism and 0.74 for independence.

On the other hand, affective commitment was measured with six items 5-point Likert scale (1=strongly disagree, 5=strongly agree) developed by Meyer and Allen (1997). The scale showed adequate reliability. The Cronbach's alpha coefficient was 0.88. In general, a value of 0.70 in the Cronbach's alpha is considered adequate in order to ensure reliability of the internal consistency of a scale (Nunnally, 1978).

RESEARCH FINDINGS AND DISCUSSION

Table 1 reports means, standard deviations, correlations among variables, and cronbach's alpha coefficients.

TABLE 1

As predicted, caring, law and code, and rules were positively and significantly correlated with affective commitment at the 0.01 level. The results supported H1, H2 and H3. In this frame, these results were consistent with the study results of Shafer (2009). Also, there was a positive but not significant correlation between independence and affective commitment. Thus, H5 was not supported. On the other hand, instrumentalism was negatively related to affective commitment. Namely, H4 was supported. This finding was similar to the study results of Tsai and Huang (2008).

The regression analysis was carried out to determine the efficacy level of the perceptions of ethical climate types on affective commitment. Multi-collinearity should be analyzed for a better regression model. In order to detect the presence of multi-collinearity, the tolerance and the variance inflation factors (VIFs) values (Akman et al., 2008: 108) are calculated. Small tolerance and high variance inflation factors (VIFs) values denote that there is a multi-collinearity problem among independent variables (Kalaycı, 2009: 268). We can assume that multi-collinearity is not a problem in data since all significant variables in Table 2 have much higher tolerance values than 0.10 (Ozgener and Iraz, 2006: 1362) and have lower variance inflation factors (VIFs) than 5.0 (Bozic, 2007: 117).

TABLE 2

The results of regression analysis in Table 2 suggest that the overall model was significant (Adjusted $R^2 = 0,290$; $F_{(5,407)} = 34,652$; $p < 0,01$). The interrelation of five independent variables (caring, law and code, rules, instrumentalism and independence) was taken into account, and the $R^2 (0,290)$ was significant at the 0,000 level. This means that 29.0% of the variance in affective commitment was significantly explained by the independent variables. Among independent variables, caring was found to be the most important in explaining the variance in affective commitment as the highest beta value was 0.377. Namely, rules were found to significantly predict of affective commitment ($\beta = 0,225$; $t = 4,925$; $p = 0,00$). Instrumentalism was also found to significantly predict of affective commitment ($\beta = -0,170$; $t = -3,865$; $p = 0,00$).

The results show that caring ($\beta = 0,377$) and rules ($\beta = 0,225$) had positive effect on affective commitment. Suar and Khuntia (2004) also found out that caring had positive effect on affective commitment. In this frame, this finding was similar to the study results of Suar and Khuntia (2004). On the other hand, instrumentalism had a negative and significant effect on affective commitment ($\beta = -0.170$; $p < 0.01$).

The following suggestions can be offered for ethical climate in order to increase affective commitment level of hotel businesses staff;

- Public authorities should carry out necessary arrangements and provide an effective control mechanism in order to lead the organizations to form professional ethical codes.
- Quality and quantity qualifications should be determined for the staff to be employed
- A comprehensive and joint ethical counsel should be founded in order to form professional codes, determine the standards, and supervise the applications.
- Higher administrative staff should be a model via their expressions and behaviors in the adaptation process of ethical behaviors for the whole staff.
- Human resources policies and applications, which have a crucial role in the formation of organizational commitment, should be developed in accordance with the exemplary hotel business applications.
- Organizational socialization process should be provided in order that the employees can learn organizational policies, rules, norms, and procedures on an interactive basis.
- In-service training programs required for conveying the information about ethical codes and organizational values determined by the administration should be supplied.
- Award and penalty system should be constituted and this system should be applied objectively.

Unless these issues are taken into account, turnover will increase, service quality will decrease, client satisfaction will be affected negatively, disadvantage of competition will occur, and consequently businesses will face the threat of withdrawing.

The findings of this study need to be interpreted with the following limitations in mind. First limitation is that the results can not be strictly construed to be representative of all middle managers and employees in hotel businesses around the world, because this study has been conducted in a specific region of Turkey, Cappadocia. Therefore, the study needs to be replicated in different tourism destination, industries and countries to be able to generalize the findings. Second, participants may have been biased to present positive aspects of their businesses.

This research aimed to investigate the relationship between ethical climate types and affective commitment in hotel businesses. For the upcoming research, it is possible to investigate the issue of ethical climate in different industry settings. Moreover, it would also be interesting to analyze the possible relationships between ethical climate and job satisfaction, turnover intention, organizational citizenship behavior, psychological well-being for different industries or organizations.

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APPENDIX

Figure 1: Victor and Cullen's Ethical Climate Matrix

		Locus of Analysis		
		Individual	Local	Cosmopolitan
Ethical Criteria	Egoism	SELF-INTEREST* <i>Instrumental**</i>	COMPANY PROFIT <i>Instrumental</i>	EFFICIENCY
	Benevolence	FRIENDSHIP <i>Caring</i>	TEAM INTEREST <i>Caring</i>	SOCIAL RESPONSIBILITY
	Principle	PERSONAL MORALITY <i>Independence</i>	COMPANY RULES AND PROCEDURE <i>Rules</i>	LAWS AND PROFESSIONAL CODES <i>Law and Code</i>

* Theoretical strata of ethical climate

** Victor and Cullen's five common empirical dimensions are found in italics

Source: Victor and Cullen, 1988: 104; Malloy and Agarwal, 2003: 226.

Table 1: Descriptive Statistics and Inter-correlations among Study Variables

	Mean	Std. Dev.	1	2	3	4	5	6
1. Caring	3,58	0,73	(0,84)					
2. Law and code	3,70	0,96	,306**	(0,86)				
3. Rules	3,70	1,05	,351**	,289**	(0,89)			
4. Instrumental	3,17	0,68	-,002	-,013	-,080	(0,75)		
5. Independence	3,16	0,78	,164**	-,061	,102	,300**	(0,74)	
6. Affective commitment	3,54	0,88	,465**	,211**	,379**	-,190**	,029	(0,88)

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

** Correlation is significant at the 0.01 level (2-tailed).

Table 2: The results of regression analysis for affective commitment

Independent variables	β	S.E.	t-value	Sig.	Tolerans	VIF
Caring	0,377*	0,055	8,166*	0,000	0,808	1,237
Law and code	0,029	0,041	0,636	0,525	0,852	1,174
Rules	0,225*	0,038	4,925*	0,000	0,825	1,211
Instrumental	-0,170*	0,056	-3,865*	0,000	0,895	1,117
Independence	-0,003	0,050	-0,061	0,952	0,860	1,116
F				34,652		
Adjusted R ²				0,290		
R ²				0,299		
Std. Error of the Estimate				0,74048		
Significance level				0,000		

Dependent variable: **Affective commitment**

* p<0,01

THE ROLE OF CORPORATE SOCIAL PERFORMANCE/RESPONSIBILITY IN BUILDING AND PROTECTING CORPORATE REPUTATION

A. Asuman AKDOĞAN
Erciyes University, Turkey

Ayşe CİNGÖZ
Nevşehir University, Turkey

ABSTRACT

Reputation is a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals. Reputation is shaped basing on some direct and indirect interactions between organization and its stakeholders, and is attributed to organization. In order to build a good reputation, one of the basic tasks that can be done is to enhance "corporate social performance (CSP)" or "corporate social responsibility (CSR)". Corporate social performance can be defined as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders. This study aims to explain corporate reputation (CR) and social performance in a theoretical way and to examine the relationship between corporate reputation and social performance empirically. Data was obtained from private corporations operating in Kayseri (Turkey). Regression analysis was used to examine the relationship between corporate reputation and corporate social performance/responsibility, and to test the research hypothesis. The results of regression analysis provided support for hypothesis.

Key Words: Corporate Reputation, Corporate Social Performance (corporate social responsibility)

INTRODUCTION

Crisis is a situation that threatens organizational survival and valuable organizational sources. One of the important sources that are threatened by crisis is corporate reputation (Akdoğan and Cingöz, 2009: 7). Reputation is "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals" (Watricks, 2002: 374). Reputation is the strongest determinant of corporate sustainability (Firestein, 2006: 25). Having good reputation creates many advantages for a firm. It provides competitive advantage, makes it difficult to be imitated, attracts new customers to organization, affects the political and legal relations positively, and increases financial performance and profitability by reducing transaction and marketing costs and helping to raise sales revenue (Gray and Balmer, 1998: 698; Greyser, 1999: 178, Smaiziene, 2008: 720). As can be seen, positive corporate reputation is an important source that affects financial performance and relationships with stakeholder of firms. Therefore, it is required to be given a great importance to the development and protection of reputation.

Since it leads people to develop negative thoughts about organization, one of the major challenges for reputation is crisis situation. Some negative news made in crisis times cause the company to be perceived as less reliable, and may damage corporate reputation. Reputation damage may create financial losses and affect organizational survival, negatively. In another words, if crisis can not be managed correctly, it may cause firms to lose many benefits that are accepted as advantages of reputation (Akdoğan and Cingöz, 2009: 5). On the contrary, since corporate reputation is a matter that is related to perception of stakeholders, good reputation may be an important instrument that protects organizations from some risks during a crisis. It may shape attributes concerning with crisis and enable organization and brand to be preferred in depression periods. In addition, reputation is a major sign of confidence. Accordingly, it can be a significant mechanism that helps risks about organization to be evaluated and creates environment of trust in relations with stakeholders.

In this respect, organizations that want to overcome crisis period with minimum damage should accept corporate reputation as an exit strategy that decreases negative effects of crisis, and should carry out some activities in the

direction of improving and protecting a good corporate reputation. In order to build a good reputation, one of the basic tasks that can be done is to enhance “corporate social performance” or “corporate social responsibility”.

Corporate social performance can be defined as “the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders” (Maignan and Ferrell, 2000: 284). Corporate social performance actions can play a significant role in promoting favorable relationship with primary stakeholder groups and affect corporate reputation positively (Brammer and Pavelin, 2006: 437; Gümüş and Öksüz, 2009: 2132). Corporate social performance helps to meet expectations of both managers and other stakeholders and it also provides good opinions about organization to be developed in community (Brammer and Pavelin, 2006: 438).

Good reputation is a valuable source that helps business to overcome crisis periods with minimum damage. Building and protecting of this valuable source largely depend on how good citizen businesses are and on their corporate social performance in society. Thus, businesses that want to affect on perceptions of stakeholders positively should understand and try to meet their economic, legal, ethical and, social expectations. Our objective in this study is to explain corporate reputation and social performance in a theoretical way and to examine the relationship between corporate reputation and social performance empirically.

The relation between corporate social performance and corporate reputation has been researched in a few theoretical studies in Turkish literature (Gümüş and Öksüz, 2009). But there are very limited studies that try to explain this relation empirically. Therefore, this study will become very useful to fill in this gap that is determined in Turkish literature. Also, this study guides managers who work under uncertainty and crisis conditions through how to develop and protect corporate reputation and how to increase corporate social performance.

THEORETICAL BACKGROUND AND HYPOTHESIS

Reputation is a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading rivals (Waddock, 2002: 374). Reputation is shaped basing on some direct and indirect interactions between organization and its stakeholders, and is attributed to organization (Dolphin, 2004: 79). Therefore, corporate reputations are cumulative representations of stakeholders’ opinions of firms which depend on their success in meeting the expectations of those stakeholders (Fombrun and Gardberg, 2000: 13; Waddock, 2000: 340; Brammer and Pavelin, 2006: 437).

Among these definitions two key points can be emphasized (Quevedo-Puente et al., 2007: 63):

- Reputation has a perceptual nature. It is related with the organization’s perceived capacity by the environment. Every stakeholders group gathers and processes information about a firm’s past actions and draws conclusions about its future prospects.
- Corporate reputation is a net or summative perception by company’s stakeholders.

Briefly, there is a general consensus within the literature that reputation can be defined in terms of its perceptual nature (Inglis, et al., 2006: 935). Additionally, a good corporate reputation should have following characteristics (Smaiziene, 2008: 720-721):

- Reputation as a signal of trust: Reputation creates trust in relations with the stakeholders of firm.
- Reputation as a risk evaluating mechanism: Corporate reputation gives ability to anticipate and evaluate future behaviour of the company. So, it helps to anticipate future prospects of companies.
- Reputation as surrogate for deficient information: Reputation is important for information asymmetry. It provides the essential information to investors and stakeholders.
- Reputation as supporting force: Reputation’s value of a company and potential to impact competitiveness might show up through its support to marketing decisions and activities.

Corporate reputation that is created to provide these benefits will affect on behaviors of all individuals and groups that are associated with firm. Concordantly, reputations of firms are effective in many decisions such as making investment decisions, career decisions, and product choices. Reputations signal publics about how a firm’s products, jobs, strategies, and prospects compare to those of competing firm (Fombrun and Shanley, 1990: 233). Therefore, a firm that has a good reputation owns a valuable asset (Caruana, 1997: 109) because its intangible nature makes copy by competing firms more difficult (Dolphin, 2004: 80).

Considering the several aspects of reputation, there are many benefits of good reputation. Reputation is seen as an important asset which could be used as a competitive advantage and a source of financial performance (Zyglidopoulos, 2003: 13; Inglis, et al., 2006: 934). It attracts new business partners and customers, increases

financial performance and investors' satisfaction and loyalty, helps insulate and protect the firms' organization/brand during a crisis, influences political and legal affairs, allows easier entry to new markets and brand extension, enables successful mergers and acquisitions, helps to reinforce relationship with suppliers and distributors and other direct stakeholders, and enhances relationship with NGOs or corporate activists (Greysen, 1999: 178; Davies, 2002: 414; Dalton, 2003: 14-15; Brissette and Power, 2005: 24; Helm, 2007: 22). Furthermore, good reputation makes it difficult to be imitated, makes an organization more transparent, affects the political and legal relations positively, and increases financial performance and profitability by reducing transaction and marketing cost and helping to raise sales revenue (Gray and Balmer, 1998: 698; Fombrun and Gardberg, 2000: 17; Dolphin, 2004: 77-78; Smaiziene, 2008: 720).

As can be seen, positive corporate reputation is an important source that affects financial performance and relationships with stakeholder of firms. Therefore, it is required to be given a great importance to the development and protection of reputation. There are several factors that can be used to build and preserve corporate reputation such as financial performance, innovation and creativity, vision and leadership, employee satisfaction to CEO performance, employee satisfaction and loyalty, developing core competencies, establishing collaborative network and alliances, and social performance and corporate citizenship (Dalton, 2003: 10).

In order to build a good reputation, one of the basic tasks that can be done is to enhance "corporate social performance" or "corporate social responsibility". In previous researches, antecedents of a good reputation have been suggested to include embracing CSR standards, philanthropic giving and the development of trusting relationship with stakeholders (Hillenbrand and Money, 2007: 261).

Corporate social responsibility and the related concepts of corporate social performance, corporate citizenship, and corporate social responsiveness have been addressed both in philosophical and practical terms. These concepts are so closely related that they are often used interchangeably. They have also been addressed as components or phases of each other (Küskü and Fraser, 2004: 57; Valor, 2005: 191). Corporate social responsibility or performance is the organizations' voluntary participation in solutions of social problems (Brammer and Pavelin, 2006: 437) and to meet obligations towards an organizations' social environment (Quevedo-Puente et al., 2007: 61). Also corporate social performance can be defined as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders (Maignan and Ferrell, 2000: 284). This definition incorporates Carroll's (1979: 499) classification of four main corporate social responsibilities. Carroll's CSR model explains four types of responsibilities for the corporation: (1) the economic responsibility, (2) the legal responsibility, (3) the ethical responsibility, (4) the philanthropic responsibility (Carroll, 1979: 499; Carroll, 1983: 604; Matten and Crane, 2005: 167). Four components of corporate social responsibility and society's expectations these dimensions are showed in Table 1.

According to Carroll, economic responsibilities include the obligations to be productive, to be profitable, and to meet consumption needs. Legal responsibilities require that businesses fulfill their economic mission within the framework of legal requirements. Ethical responsibilities concern society's expectation that businesses follow established moral standards. Ethical responsibilities concern society's expectation that businesses follow established moral standards. Discretionary responsibilities reflect the desire to see businesses involved in the betterment of society beyond economic, legal, and ethical responsibilities (Carroll, 1979: 499; Maignan and Ferrell, 2001a: 39).

As suggested by Carroll, the main social responsibility of businesses is economic (Carroll, 1979: 500; Pinkston and Carroll, 1994: 159). Commercial organizations are expected to produce the goods and services that society desires, and thereby to create sustainable economic wealth. Businesses also have to meet philanthropic expectations of community and follow the rules of behavior considered appropriate by society, whether these rules are stated in laws or are defined by ethical standards (Maignan and Ferrell, 2001b: 459).

Table 1. Four Components of Corporate Social Responsibility

Type of Responsibility	Societal Expectation	Examples
Philanthropic Responsibilities	Desired of business by society	Corporate contributions Programs supporting Community/education Community involvement/ Improvement; volunteerism
Ethical Responsibilities	Expected of business by society	Avoid questionable practices Respond to “spirit” of laws Assume law is floor of behavior; operate above minimum required by law
Legal Responsibilities	Required of business by society	Asset ethical leadership Obey all laws; adhere to regulations Environmental laws Consumer laws Law affecting all employees Fulfill all contractual expectations
Economic Responsibilities	Required of business by society	Be profitable Maximize sales revenue Minimize costs (administrative, production, marketing, distribution) Make wise strategic decisions Be attentive to dividend policy

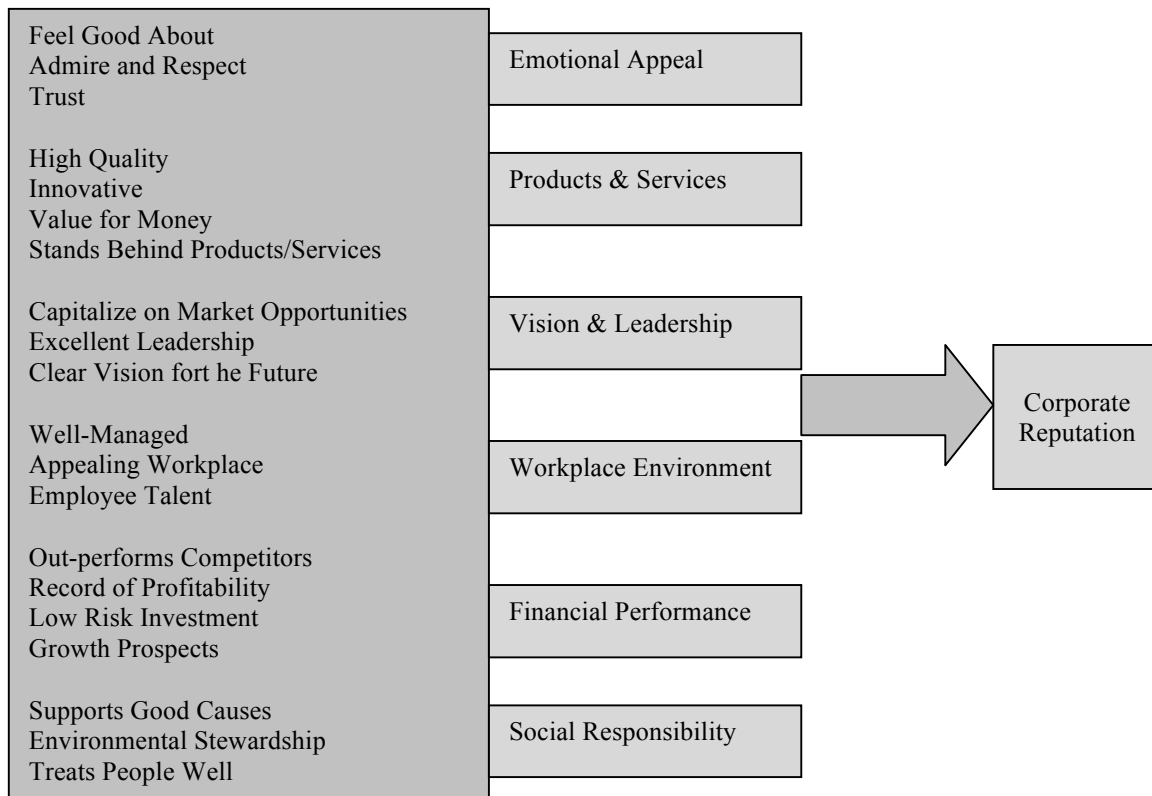
Pinkston, T. S. and Carroll, A. B. (1994), Corporate Citizenship Perspective and Foreign Direct Investment in the US, *Journal of Business Ethics*, 13(3), p. 160

Implementing social responsibility practices can help reduce cost, anticipate change and risk to open up new markets. All these can be real sources of competitive advantage that will lead to an improved picture and the relevant advantages in terms of competitiveness, performance, and reputation (Grigore, 2009: 95). As mentioned in the earlier studies, corporate social performance actions can play a significant role in promoting favorable relationship with primary stakeholder groups and affect corporate reputation positively (Riordin et al., 1997: 401; Brammer and Pavelin, 2006: 437; Gümüş and Öksüz, 2009: 2132).

Corporate social performance helps to meet expectations of both managers and other stakeholders and it also provides good opinions about organization to be developed in community (Brammer and Pavelin, 2006: 438). Research on corporate social performance and on corporate reputation has developed along parallel theoretical lines, with both concepts broadening theoretically to include all stakeholder relations (Quevedo-Puente et al., 2007: 61). CSP, however, is an objective variable whereas CR is a perceptual variable. That is, CSP is a comprehensive assessment of firm’s fulfillment of stakeholders’ expectations, whereas CR is the firm’s perceived capacity to meet stakeholders’ expectations. In essence, CSP describes how the firm delivers value at a moment of time among stakeholders and CR is the perception of how the firm is going to deliver value in the future. One is objective, the other perceptual; one describes the past, the other predicts the future. Because past fulfillment of stakeholders expectations generates an expectation of future fulfillment, CSP can be an antecedent of CR (Quevedo-Puente et al., 2007: 68). Hillenbrand and Money (2007: 262) suggested that CSP is preceding reputation, or in other words as a key element of reputation.

Fundamentally, corporate social performance takes place among main factors that compose reputation. Schnietz and Epstein (2005), for example, identify social responsibility as a key dimension of corporate reputation; Tucker and Melewar (2005) see social responsibility as a critical element of reputation (Hillenbrand and Money, 2007: 261). According to Fombrun, there are six elements (i.e. emotional appeal, vision and leadership, products and services, financial performance, workplace environment and social responsibility) that have effects on perceptions of stakeholders regarding the organization. (Fombrun and Gardberg, 2000: 13). These dimensions and their components are showed in Figure 1.

Figure 1. Dimension of Corporate Reputation



Fombrun, J. C. and Gardberg, N. (2000), Who's Tops in Corporate Reputation?, *Corporate Reputation Review*, 3(1), p. 14.

As explained in Figure 1, social responsibility is a component of corporate reputation. Since social behavior has an impact on perceptions of reputation (Zyglidopoulos, 2003: 12; Gardberg and Fombrun, 2006: 331; Grigore, 2009: 96-98;). In addition, most of the dimensions of corporate social responsibility that are determined by Carroll are among the components of reputation. Both social-financial responsibility and expectations towards product and services have an important place in corporate social responsibility. In this respect corporate social responsibility or performance can be thought as one of the main antecedents of reputation.

As can be seen, good reputation is a valuable source that helps business to overcome crisis periods with minimum damage. Building and protecting of this valuable source depend on how good citizen businesses are and on their corporate social performance in society. Thus, businesses that want to affect on perceptions of stakeholders positively should understand and try to meet their economic, legal, ethical and, social expectations. In this context, we suggest the following hypothesis.

Hypothesis: Corporate social performance/responsibility has a positive impact on corporate reputation.

METHOD, RESULTS AND DISCUSSION

Sample and Measurement

Data is obtained from one of the top executives of each 43 private companies in Kayseri, Turkey, and structured questionnaire forms were used. We examined corporate social performance (or responsibility) with four-dimensional scale developed by Maignan and Ferrell (2000). Their scale was based on the classification of responsibility proposed by Carroll (1979), and was used in Turkish literature by Ksk and Fraser (2004) previously. In addition, corporate reputation was measured by scale that was used by Carmeli and Tishler (2005). This measure was based on Fortune Magazine's 'Annual Survey of America's Most Admired Corporations'. All survey measures will be assessed with 5-point Likert scales ranging from 1-strongly disagree to 5-strongly agree.

Regression analysis was used to examine the relationship between corporate social performance/responsibility and corporate reputation.

Analysis and Test of the Hypothesis

Cronbach's alpha scores for each variable exceeded 0.70 (corporate social performance/responsibility ($\alpha=0.922$) and corporate reputation ($\alpha=0.796$)), which is an acceptable level of reliability.

TABLE 2^a
Results of Descriptive Statistics, Correlation, and Regression Analyses

Variables	Mean	s.d.	1	R ²	Adjusted R ²
1. Corporate Social Performance/Responsibility (independent variable)	4.02	0.417			
2. Corporate Reputation (dependent variable)	4.13	0.440	0.62**	0.526*	0.514*

^an= (43 organizations), * $p < .05$, ** $p < .01$

Means, standard deviations, correlation, and regression among the variables are presented in Table 2. According to our analysis, research variables are positively and significantly correlated with each other. Therefore, the more corporate social performance increases, the more corporate reputation increases. This finding supports result of previous study (Brammer and Pavelin 2006). Corporate reputation is the sum of stakeholders' perceptions of the firm's capacity to fulfil their interests. Stakeholders have some economic, legal, ethic, and discretionary expectations from firms. Meeting these expectations may affect stakeholders' perceptions in a positive way and contribute to improvement of corporate reputation. That is, when a company supports CSR activities, their stakeholders of the companies are likely to evaluate the company more positively.

Antecedents of a good reputation have been suggested to include corporate social performance or responsibility in recent studies (Hillenbrand and Money, 2007: 261). In addition, corporate social performance takes place among main factors that compose reputation. Schnietz and Epstein (2005), for example, identify social responsibility as a key dimension of corporate reputation. Also these factors may cause corporate reputation to improve.

Regression analysis was used to examine the relationship between corporate social responsibility and corporate reputation and to test research hypothesis. According to the results of regression analysis, the relationship between the corporate social responsibility (independent variable) and corporate reputation (dependent variable) is statistically significant ($R^2 = .526$). Corporate social responsibility can explain the changes on corporate reputation on 52.6%. Therefore, research hypothesis indicating "corporate social performance/responsibility has a positive impact on corporate reputation" is supported. That is, corporate social performance/responsibility has positive and significant effects on corporate reputation. In this context, our study provides empirical support for the argument that organizations are able to build and protect corporate reputation by increasing corporate social performance.

CONCLUSION

Corporate reputations are summative representations of stakeholders' opinions of firms which depend on their success in meeting the expectations of those stakeholders. One of the main factors that can help to increase corporate reputation is corporate social performance or responsibility. Corporate social performance can be defined as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders. Corporate social performance actions can play a significant role in promoting favorable relationship with primary stakeholder groups and affect corporate reputation positively. In this context, we examined corporate social performance/responsibility and corporate reputation in a theoretical way and researched the impacts of corporate social performance on corporate reputation empirically.

The results of our analysis show that corporate reputation is significantly and positively related to corporate social performance/responsibility. The more corporate social performance/responsibility increases, the more corporate reputation increases. In this respect, our study provides empirical support for the argument that organizations are able to build and protect corporate reputation by increasing corporate social performance.

Results of this research are restricted with the sample. More different findings could be obtained from broader samples. Future research may examine how dimensions of corporate social performance/responsibility affect corporate reputation.

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DOES COMPANIES' CORPORATE SOCIAL RESPONSIBILITY ENHANCE ECONOMIC VALUE ADDED? EMPIRICAL EVIDENCE FROM TURKEY

Güler Aras

Yildiz Technical University, Turkey

Aslı Aybars

Marmara University, Turkey

Özlem Kutlu

Yildiz Technical University, Turkey

ABSTRACT

Engagement of companies in socially responsible activities is considered to be a significant factor for the attainment of sustainable corporate performance. This has intrigued many academicians and practitioners to focus on the issue and empirically test the debate regarding the impact of Corporate Social Responsibility (CSR) on performance. The relationship between ethical commitment and performance has mainly been evaluated from the perspective of two basic categories, which are accounting based and stock-market based measures. However, Economic Value Added (EVA) is included in this study due to its close representation of shareholder wealth maximization that is regarded to be the main purpose of the existence of corporations. The purpose of this study is to evaluate the impact of CSR activities on the corporate EVA with a two step methodology introducing a lag into the analyses. To achieve this objective, empirical analyses are performed on a sample of 40 non-financial firms listed on the Istanbul Stock Exchange Index 100 (ISE Index 100) for the consecutive four years from 2005 to 2008. In order to eliminate the impact of several firm specific characteristics, control variables have been introduced into the model to more clearly gauge whether CSR activities have a potential to enhance EVA. The results of the analysis indicate a positive and significant relationship between the measure of CSR and EVA. Moreover, further analysis is applied to differentiate the impact of various CSR dimensions on the associated performance measure and the findings reveal that certain dimensions have a more pronounced effect on EVA. This study adds to literature by utilizing EVA as the measure of financial performance, which lacks in recent empirical CSR research. The measurement of CSR activities has been a controversial issue in literature due to the problems of quantification. However, application of a theoretically accepted methodology utilizing content analysis reveals that annual reports of companies can be used to quantify CSR in an emerging market without relying on an established CSR index as those of the developed markets. Furthermore, the methodology employed provides significant additional insight by evaluating CSR activities with a detailed perspective using a theoretically accepted breakdown. This paper is unique as there are not many studies conducted in emerging markets regarding CSR, specifically in Turkey.

Keywords: *corporate social responsibility, economic value added, sustainability, emerging market, content analysis*

INTRODUCTION

The emphasis given to socially responsible actions undertaken by the corporations have increased in the last decades, specifically due to the recent financial scandals. CSR appears to have become more ubiquitous and has been perceived as being relevant to corporations all over the world in the past two decades (Aras and Crowther 2008). Driven by the significant costs of these activities and the potential performance improvements, the impact of CSR on financial performance has become a frequently investigated topic of academic research. The significance of the research area can be seen from the study of Margolis and Walsh (2003), which evidences that the link between CSR and financial performance has been investigated by one hundred twenty-seven empirical studies between 1972 and 2002. More recent studies regarding this issue can be listed as those of Ngwakwe

(2009), Jackson and Parsa (2009), Makni et al. (2008) and Fauzi et al. (2007). However, the results of the empirical studies are not found to be consistent. Even though most of these studies have documented a positive relationship between these two variables (McGuire et al. 1988, Peters and Mullen 2009; Verschoor 2003; Ruf et al. 2001), there are also studies that have documented a negative linkage (Spicer 1978; D'Arcimoles and Trebucq 2002). Furthermore, some studies even document that there is no relationship between financial performance and CSR (Nelling and Webb 2009; Chen and Metcalf 1980).

Most of the previous empirical analyses have examined the relationship between CSR and financial performance with traditional measures like ROA, ROE and ROS. As the primary aim of the company is widely accepted to be shareholder wealth maximization, the financial performance measure employed in this study is chosen to be EVA, specifically due to its direct linkage to the creation of shareholders' wealth. Various studies have been conducted in literature employing shareholder value as the dependent variable to investigate the impact of CSR on value creation. Godfrey et al. (2008) conduct an event study covering a period of 11 years from 1993 and 2003 and conclude that engagement in CSR activities creates value for shareholders measured by stock price. The relationship between CSR projects and creation of value for the firm has been investigated by Husted and Allen (2007). Evaluating CSR on the basis of visibility, appropriability, and voluntarism in their study, they emphasize that designing CSR projects is necessary for shareholder value creation. Another study performed by Becchetti et al. (2009) focuses on this issue and examines the reactions of the stock market to a company's entry into or exit from Domini 400 Social Index, which is a CSR benchmark index in Finland, between the years 1990 and 2004. The findings indicate a significant and negative reaction of abnormal returns in the case of an exit from the index. However, limited number of empirical analyses has been conducted regarding the relationship between CSR and EVA (Mittal et al., 2008; Kim and Dam, 2003). Mittal et al. (2008) study the impact of CSR activities on the economic performance measures of EVA and market value added (MVA). Conducting an analysis on a sample of 50 companies during the period between 2001 and 2005, they explore whether commitment to ethical actions enhance these performance measures. The results are controversial and provide little evidence in terms of a positive relationship. The relationship between CSR and EVA is found to be negative and significant for two years, whereas; that for CSR and MVA is found to be positive and significant for three years of the overall analysis period.

In this study, EVA is utilized as the dependent variable of the analyses due to its predominance over other financial performance measures. The close relation of EVA to shareholder wealth maximization is considered to be one of the most crucial issues in strategic business management. Bhattacharyya and Phani (2004) argue that EVA has a higher correlation with firm's market value than the traditional financial performance measures revealing its superiority. Abdeen and Haight (2002) point out that EVA highlights residual wealth creation in a firm after all costs and expenses have been charged including the firm's cost of capital invested. Furthermore, O'Bryne (1996) states that EVA is systematically linked to market value, thus, it provides a better predictor of market value than the other performance measures. In this study, we first try to investigate whether the companies' CSR activities, which are derived from their annual reports, enhance the following year's EVA. Further analysis is conducted to reveal what kind of CSR activities are more closely related with following year's EVA.

This paper is organized as follows; first an introductory part including recent literature is provided focusing on the linkage among CSR activities, EVA, and the control variables employed; then the research methodology is set out together with the data, sample selection and statistical techniques; lastly the results are evaluated and concluding remarks are provided together with theoretical and managerial implications.

METHODOLOGY

Data and Sample Selection

The sample used in this study is composed of the firms listed on the ISE Index 100 for the consecutive four years from 2005 to 2008. The empirical analysis is conducted on 40 listed firms which are selected after removing all of the firms in the financial sector and two firms in the automobile sector since the format of their annual reports differ significantly from those of the non-financial firms. The data regarding the CSR activities is derived from the annual reports of the associated companies, whereas; data regarding the measurement of EVA is generated from the financial statements of these companies together with the footnotes to the statements.

Variables

The dependent variable used in this study is chosen to be EVA mainly due to its superiority to other performance measures as it takes into account both the cost of debt and equity capital, in other words, how much economic

value in monetary terms the firm is creating. EVA is calculated by deducting the capital charge or cost of capital of an investment over a certain period from the Net Operating Profit After Tax (NOPAT) for that period. Therefore, EVA is calculated as follows;

$$\text{NOPAT} - (\text{WACC} * \text{Debt and Equity Capital})$$

From the above equation it is clear to see that net operating profit is adjusted for accounting distortions and a charge on capital employed at the rate of weighted average cost of capital. Thus, EVA aims to reveal what happens to the wealth of shareholders.

Estimation of the cost of capital is considered to be the most challenging component of EVA calculation. The cost of capital is the cost of raising additional funds from debt and equity sources and represents the opportunity cost or the rate of return demanded by the investors. Furthermore, companies create value for their stakeholders by earning returns on invested capital which exceed the cost of the capital of the firm. The Weighted Average Cost of Capital (WACC) is determined by using appropriate weights (in terms of market value) for each component of long-term capital. The calculation of EVA is provided in Table 1 in detail.

This study employs CSR as the explanatory variable of the analysis to explore the relationship between engagement in social responsibility activities and firms' performance determined by EVA. Content analysis methodology, which is first utilized by Bowman and Haire (1975), is applied in the analyses to determine the level of CSR in line with various other studies in literature (Hughes et al., 2001; Hackston and Milne, 1996).

There are two main processes related to the content analysis methodology referred to as the development of a categorization scheme and determination of the rules to be used as a guide for the decision of what and how to code (see also Milne and Adler, 1999; Aras et al. 2010). The themes, which generate a detailed breakdown of CSR activities, can be listed as environment, energy, products/consumers, community, and employee health and safety, employee other, general. Table 1 below also lists the CSR themes and associated explanatory variables together with their unit of analysis, which is the number of the sentences related to the CSR disclosures in the companies' annual reports (Hackston and Milne, 1996).

Several firm specific factors have been controlled for in the analysis to clearly evaluate the relationship between social responsibility and firm performance. As a proxy for firm size, log of net assets is employed. ROE is used as a proxy of accounting based measures of financial performance. Stock market based performance measures are controlled by market to book ratio, price earnings ratio and market value. Furthermore, foreign ownership variable is also added to the model to generate additional insight and take into account firms' ownership structure.

The Models Employed

Two types of models are utilized with cross sectional regression analysis. For the first type of model, the dependent variable is chosen to be EVA whereas the explanatory variable is chosen to be CSR. The control variables are the same for both of the models. The difference of the second model arises only from the explanatory variable, which is denoted by the breakdown of CSR. The two models can be seen on Table 2 in detail.

It is important to note that a lag of one year is introduced into the two models to more clearly analyze the impact of socially responsible activities on corporate EVA. Therefore, EVA refers to that of the year 2007, whereas; CSR and all control variables refer to the year 2006.

Table 1: Summary of Variables, Abbreviations and Definitions

Variables	Abbreviations	Definitions
Dependent Variable		
Economic Value Added	EVA07	NOPAT – (WACC * Long Term Debt and Equity Capital)
Net Operating Profit After Taxes	NOPAT	Operating Income *(1- tax rate)
Weighted Average Cost of Capital	WACC	$WACC = (re * we) + (rd * wd)$
The Cost of Equity	re	$re = rf + \beta * (rm - rf)$
Return on Treasury Bills	rf	Risk free rate
Firm's Beta	β	The covariance of stock versus market returns is divided by the variance of the stock market.
Return on ISE-100	rm	The average return of last 100 days of ISE-100 index
The Weight for Equity	we	Equity / Total Debt + Equity
The Cost of Debt (After Tax)	rd	$(Interest Expense / Long Term Debt) * (1-t)$
The Weight for Debt	wd	Long Term Debt / Total Debt + Equity
Explanatory Variables		
The Level of Corporate Social Responsibility	CSR06	The number of sentences constituting a CSR activity
CSR Themes:		
Environment	CSRenv	The number of sentences constituting the environment theme of CSR
Energy	CSRengy	The number of sentences constituting the energy theme of CSR
Products/Consumers	CSRprcn	The number of sentences constituting the products/consumers theme of CSR
Community Involvement	CSRcom	The number of sentences constituting the community involvement theme of CSR
Employee Health & Safety	CSRempsf	The number of sentences constituting the employee health & safety theme of CSR
Employee Other	CSRempoth	The number of sentences constituting the employee other theme of CSR
General	CSRgen	The number of sentences constituting the general theme of CSR
Control Variables		
Firm Size	lnasset	The log of net assets
Return on Equity	ROE	The ratio of net income to total equity
Market to book ratio	MB	The ratio of market value to book value
Price Earnings Ratio	PE	The ratio of share price to earnings per share
Market Value	lnmarket	The log of market value
Foreign Ownership	FDI	The percentage of shares that are held by foreign owners

Table 2: The Models Utilized in the Analysis

Model	Dependent Variable	Explanatory Variable	Control Variables
1	EVA07	CSR06	*6 control variables
2	EVA07	CSR Themes: CSRenv CSRengy CSRprcn CSRcon CSRempsf CSRempoth CSRgen	

*The control variables used in the models are the same and can be listed as log of assets, return on equity, market to book ratio, price/earnings ratio, log of market value and the percentage of shares that are held by foreign investors

Empirical Results

This subsection is dedicated to the results of the empirical analyses that investigate whether engagement in CSR activities enhance firms' EVA depending on the results obtained from cross sectional regression analysis. The outcomes of the two models are displayed on Table 3 below.

Interpretation of the results regarding the first model reveals that the coefficient of the explanatory variable, CSR activities in the year 2006, has a positive and statistically significant impact on the dependent variable EVA of the following year, 2007. This finding implies that the companies that act in a socially responsible manner have demonstrated better performance in terms of EVA during the observation period. Therefore, it can be stated that investment in activities which are regarded as being socially responsible have the tendency to act in line with the shareholder wealth maximization notion.

As the table represents, the control variables used in this study have certain significant impacts on firms' EVA. The results of the first model show that all of the control variables other than FDI have statistically significant coefficients. Thus, the structure of ownership, which is considered from the perspective of foreign owners, has no impact on EVA. Firms' size denoted by *Inasset*, the accounting based performance measure ROE and the stock market based performance measure MB have a positive and significant influence on EVA. As can be seen from the coefficient of the control variable ROE, the impact of this performance measure is the highest on the dependent variable. Meanwhile, the significant and negative coefficients of PE and *Inmarket* reveal the reverse relationship between these variables and EVA.

The results of the second model provide a more detailed perspective on social responsibility as it includes the breakdown of the CSR activities. The only two dimensions that have a positive and significant impact on EVA are displayed as being *CSRenv* and *CSRprcn*. This finding implies that socially responsible actions regarding the environment and products/consumers have enhanced firms EVA rather than the other dimensions. However, this should not be considered as investment in the other dimensions is meaningless in terms of EVA improvement. The period of the analyses, the sample taken into account and, more importantly, what is reported in the annual reports have the potential to influence these findings. Thus, it can not be stated that the CSR activities should only focus on the environment and the products/consumers when dealing with EVA. Table 3 also shows that the signs and significance statuses of the control variables' coefficients in the second model are the same with those of the first one displaying no major difference in their magnitudes. Therefore, the explanations provided for the first model also hold true for the second one.

Table 3: The Results of the Analyses

	Dependent Variable: EVA07 Model 1	Dependent Variable: EVA07 Model 2
Explanatory Variable:		
CSR06	0.0004*	
CSR Themes:		
CSRenv		0.0028**
CSRengy		0.0038
CSRprcn		0.0009*
CSRcon		0.0003
CSRempsf		-0.0076
CSRempoth		0.0000
CSRgen		-0.0011
Control Variables:		
<i>Inasset</i>	0.1124***	0.1063***
ROE	0.3476***	0.3212***
MB	0.1154***	0.1275***
PE	-0.0013**	-0.0011*
<i>Inmarket</i>	-0.1038***	-0.1072**
FDI	0.029	0.0479
<i>R</i>	0.814	0.861
<i>R</i> ²	0.663	0.741
<i>Adj R</i> ²	0.589	0.611
<i>F</i>	8.992***	5.716***

Legend: **p*, 0.10; ***p*, 0.05; ****p*, 0.01

Concluding Remarks

The purpose of this study is to add to literature by focusing on two very significant issues, which are CSR and EVA with a perspective from an emerging market. Numerous analyses have been conducted regarding the relationship between social responsibility and financial performance; however, few have employed EVA as the dependent variable of the models. CSR is considered to contribute to the value creation of the firm by emphasizing that the company cares about the society as a whole while trying to generate sustainable corporate performance. As EVA is regarded to be a crucial tool of strategic business management in terms of shareholder wealth maximization, companies should be devoted to engage in any actions that have the potential to boost this notion. Therefore, it is not difficult to become aware of the interrelation between these two notions.

Two models are developed and the overall results suggest that socially responsible firms display enhanced performance in terms of EVA. As the findings of the analyses clearly demonstrate, conducting socially responsible activities is one of those tools of shareholder wealth maximization, thus, should be considered as a crucial element of firms' agenda. Furthermore, there are certain significant implications of this study for the managers. As the findings establish that CSR enables firms to focus their strategic goals to value creation, more attention should be given to how CSR activities are communicated to the stakeholders. As the annual reports are one of the most important tools of increasing the awareness of the investors, how CSR is being reported is utterly important.

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EFFECTS OF CORRUPTION ON REINVESTMENT DECISIONS: A WORLD WIDE ANALYSIS WITH MNEs

**Martina McGuinness
Nizamettin Bayyurt
Mehmet Demirbag**

University of Sheffield, England

ABSTRACT

A range of studies have found that corruption has a significant impact upon FDI decisions, however to date there has been little investigation into longer term investments made by firms. Utilizing 2005 World Bank Enterprise Survey data, this study explores the relationship between corruption and the strategic decision to reinvest. Drawing together institutional and transaction costs approaches, we find variation in the different dimensions of corruption and their impact upon relationship between corruption and reinvestment. We find that pervasive corruption impacts negatively upon reinvestment whilst bribery is not found to be significant. Perceived robust legal institutions have a positive correlation with reinvestment. Firm level attributes of increased size and age are important factors in positive reinvestment decisions but export orientation is not significant.

INTRODUCTION

This study explores the relationship between the institutional environment and firm growth, and more particularly, the impact of corruption upon re-investment decisions in multinational enterprises (MNEs). There is consensus in the literature that corruption has a negative impact upon foreign direct investment as well as local investment. However, to date, there has been very little work carried out on subsequent sequential investment decisions and the impact corruption might have upon these. This research addresses this gap in the literature and utilizes empirical data to provide novel insights into the longer term strategic investment decisions made by MNEs. We demonstrate that this picture is more complex than one might expect and we indicate key managerial implications which emerge from our analysis.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Corruption has long been a subject of interest for researchers, however, interest in the area has grown over recent years. Some early work indicated corruption had positive benefits for economic growth by allowing firms to circumvent bureaucratic delays (Leff, 1964; Huntington, 1968). More recently, a keen awareness has emerged of the obstacle to business posed by corruption (Brunette et al, 1997; Pfeffermann & Kiskunko, 1999), its negative impact upon economic growth (Mauro, 1995) and in particular the influence corruption has upon inhibiting foreign direct investment (Habib & Zuravicki, 2001; Robertson & Watson, 2004).

Conceptually, scholars have sought to understand corruption utilizing a variety of theoretical frameworks; for example, causality (Ades & Di Tella, 1999), the perspective of public economy and ethics (Rose-Ackerman, 1999; 2002), transaction-cost economics (Husted, 1994; 1999) and governance (Hellman et al, 2000). Empirical work has also scrutinized this phenomenon from a range of dimensions such as; direct and indirect costs (Doh et al, 2003), pervasiveness and arbitrariness (Doh et al, 2003; Rodriguez et al, 2005, Uhlenbruck & Rodriguez, 2006), transparency (Zhao et al, 2003) and perceptions of host country corruption (Wilson, 1996; Habib & Zuravicki, 2001).

This paper provides a novel contribution to the growing body of research in the area of corruption in two ways. Conceptually, our analysis is underpinned by an integration of transaction costs with institutional theory, as

advocated by North (1990). This allows us to broaden our focus from the technical environments of individual transactions, as suggested by transaction cost theory, and place these strategic decisions within the wider institutional context. Such an approach is invaluable as it is impossible to understand corruption separate from the institutional environment within which it exists. Secondly, the key relationship of corruption and re-investment is a novel focus for investigation. Whilst much work has been carried out on the impact of corruption upon foreign, direct investment, mode of entry and ownership strategies, the strategic issue of re-investment has been neglected. So, whilst scholars such as Habib & Zuravicki (2001) found that corruption impacts less upon local, rather than foreign, direct investment, and it can vary by region (Asiedu & Freeman, 2009), little work has explored the longer term issue of re-investment. Institutional factors have been found to be significant for re-investment decisions (Johnson et al, 2002; Cull & Xu, 2005) but these investigations have focused upon factors such as access to external finance and secure property rights. Whilst Cull & Xu found that the reliability of contract enforcement did impact upon re-investment, they did not explore this within additional dimensions of corruption.

Our study examines the institutional domain within which corruption exists and which provides the context for re-investment decisions. We also incorporate firm level variables of age and export orientation and put forward a number of hypotheses such as; firms are less likely to re-invest in countries with pervasive corruption and strong legal institutions encourage re-investment and higher levels of bribery.

Corruption is distortionary; it increases perceived levels of environmental uncertainty and also adds to the organization's transaction costs (Shleifer & Vishny, 1993; Wei, 1997). It has long been recognized as a key influence in the FDI investment decision, particularly in emerging markets (Rodriguez et al, 2005; Uhlenbruck et al, 2006). It has been argued that the contribution of corruption to perceived levels of environmental uncertainty is underpinned by a number of factors, of which pervasiveness and arbitrariness are key dimensions (Lee & oh, 2007; Rodriguez et al, 2005; Uhlenbruck et al, 2006; Wei, 1997). The pervasiveness of corruption is seen as more of a deterrent to the initial investment decision because it increases the *known* costs of investing. In contrast, corruption that is *unknown* i.e. uncertain, does not act as a such a deterrent to investment because it is perceived as part of the uncertainty of operating a new market (Cuervo-Cazurra, 2008). In making strategic decisions around re-investment, incumbent firms have additional knowledge of the institutional environment developed through their operating experience post FDI. This is with particularly important with respect to both pervasiveness as it means that the level of uncertainty regarding this dimension has decreased further and therefore managers are less likely to misjudge or ignore the costs (Doh et al, 2003). Consequently, their knowledge regarding the transaction costs associated with pervasive levels of corruption is likely to be well developed. Therefore, we hypothesise that

H1: In countries with pervasive corruption firms are less likely to re-invest

As institutions provide the context within which the firm's transactions take place, it is not surprising that a number of scholars have noted the importance of positive and robust host government institutions (Henisz, 2000; Meyer, 2001). Central in this institutional infrastructure are those structures which provide the legal frameworks which facilitate the existence and operation of businesses (Rose-Ackerman, 2002). Previous research has investigated the importance of robust legal institutions in influencing IJV partner selection, concluding that confidence in the ability to capture rents was highly significant. Such confidence is inherently linked with managerial perceptions of the host country's legal institutions to provide adequate safeguards against arbitrary rulings as well as shaping an environment where wrongdoers are captured and punished (Roy & Oliver, 2009). 'Administrative quality' in the form of control of corruption as well as the investment-friendly profile of administration, law and order is an important influence in decisions about resource commitment (Aysan et al, 2007). Quite simply, strong legal institutions are critical in securing property rights and integrity of contract (Haggard & MacIntyre, 2008). Logically, firms are unlikely to commit *further* resources in markets where they perceive that property rights are not respected and contracts unenforceable.

H2: Strong legal institutions encourage re-investment by firms

Laws against bribery abroad, such as the OECD Anti-Bribery Convention, aim to reduce the supply of bribes by foreign investors by increasing the costs of bribing abroad (Cuervo-Cazurra, 2008). In other words, anti-bribery laws increase the firm's transaction costs and therefore act as a disincentive to engaging in corruption in host countries (Cuervo-Cazurra, 2006). Hines (1995) found that after the enactment of the U.S. Foreign Corrupt Practices Act, American business activities in bribe-prone countries decreased sharply. Even if firms continue to transact business in countries riven by bribery, they are likely to find themselves disadvantaged in comparison to

competitors who do pay bribes. So, firms operating in countries with high levels of bribery are likely to find their transaction costs are increased whether or not they pay bribes. Hence,

H3: Higher levels of bribery lead to lower levels of re-investment

MNEs with a longer tenure of operations are significantly more likely to make additional investments (Mudambi, 1998). Through longevity, the firm may develop experience-based capabilities, refined routines and the ability to adapt (Baum & Shipilov, 2006; Henderson, 1999). Such skills are of even greater value in environments which are characterised by high degrees of uncertainty within the institutional domain. Over time, organisations have the opportunity to build networks and relationships with institutions (Hoskisson et al, 2000) thereby reducing the negative impacts of corruption on transactions costs (Makhija & Stewart, 2002; Makhija, 2003). For example, age can confer specific advantage in terms of the institutional embeddedness of the organization leading to a reduction in perceived institutional uncertainty as a result of corruption, or the opportunity to manipulate the environment to its needs (Zimmerman & Zeitz, 2002), for example, older firms may have developed greater bargaining strength leading to public officials demanding fewer bribes (Svensson, 2003). At the most basic level, for those older firms actively participating in corruption, they know who to pay and how much; for those firms not actively engaging in corruption, they are fully apprised of the implications and are therefore in the optimal position to make judgements regarding cost implications.

H4: The older the firm, the less likely that corruption shall mitigate against reinvestment

Larger firms have greater resources available to them than smaller firms and therefore are better able to pay bribes (Svensson, 2003). Increased size also provides advantages such as enhanced contacts, clout and the ability to make credible threats of retaliation to host governments should property rights be violated (Acs et al, 1997). The impact of corruption on transaction costs is likely to be disproportionately greater for small and medium sized enterprises (SMEs) than for large MNEs. Further, SMEs are more sensitive to the heightened uncertainty and levels of risk which are characteristic of corrupt institutional domains (Ghosal & Loungani, 2000; Lskavyan & Spatareanu, 2008) and consequently would be less likely to commit additional resources through reinvestment.

H5: The larger the firm, the less likely that corruption shall mitigate against reinvestment

Examining a sample of Swedish firms, Hakkala and her colleagues (2008) discovered that corruption impacted differently upon vertical FDI, that is investment made primarily to produce goods for export to destinations outside the host country when compared to horizontal FDI. Corruption impacted negatively upon firms engaging in horizontal investments aimed at local sales. In contrast they did not find any robust effects on vertical and export platform investments.

H6: The more export oriented the firm, the less likely that corruption shall mitigate against reinvestment

METHODS

This study draws upon the 2005 World Bank Enterprise Survey Data and utilizes a random sample of 23 countries, 1128 firms of which more than 5% belongs to a foreigner partnership. After removing missing values, outliers and “don’t know”s, a sample of 423 firms remained. These countries are categorized as follows; transition-non EU members (127 firms), transition-EU (153 firms), big emerging (44 firms) and developed-EU (99 firms). The home countries of the firms are included in the analysis as well and firms are classified in three groups according to their size. The sample comprises 4 sectors: manufacturing, construction and real estate, wholesale, trade, repair of motor vehicles, household goods and others. In the survey, responses were measured on Likert scales (5 and 7 point) to statements such as “corruption is obstacle or not for operation and growth for the business”. Firms answering “don’t know” are excluded from the analysis and the others are recoded as 1; no (from 1, 2 and 3) and 2; yes (from 4, 5, and 6). Regression analysis searches for the effects of corruption, bribery, court system reliability, industry, exports, home country, and size on reinvestment. Industry and home countries are dummies. Reinvestment and firm age are logarithmic and the exports variable is in square root in the analysis.

ANALYSIS

The aim of the analysis is to investigate the impacts of corruption on reinvestment decisions of multi national companies (MNE). Table 2 shows binary correlations between variables. It is seen that variables of which effect on reinvestment decisions analyzed in this study have significant correlations with reinvestments.

The regression analysis results of these variables are given in table 3. The model searching the effect of corruption, bribery, court system reliability, industry, exports, home country, and size on reinvestment is significant as a whole ($R = 0,653$, $P < 0,0001$). Industry and home countries are dummies. Reinvestment and firm age are logarithmic and exports square root is in the analysis. The results given in table 3 display that while corruption has negative effect, honesty and uncorrupted court system has positive effect on reinvestment decisions of MNEs. Among the control variables, age and size are statistically significant on reinvestment but export is not.

FINDINGS AND CONCLUSIONS

Our results show that while pervasive corruption has a negative effect upon reinvestment, the perceived honesty and uncorrupted court system has a positive effect on reinvestment decisions of MNEs. Bribery is not found to be significant and we suggest that this may be linked to the effectiveness of institutional enforcement. We find that age is a significant variable and older firms are more likely to reinvest. This may be associated with the level of institutional embeddedness conferred through longevity. The more embedded the firm is in the institutional environment, the greater the level of predictability of that environment and consequently the decision to reinvest is perceived as less risky. We also find a correlation with size which is in keeping with other research which suggests that smaller firms have less bargaining power and thus are more sensitive to uncertainty and risk (Ghosal & Loughani, 2000; Lskavyan, & Spatareanu, 2008; Svensson, 2003).

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Table1: Summary statistics of variables

		Frequency	Percent	
Host country groups	Transition- non EU	127	30,0	
	Transition- EU	153	36,2	
	Emerging	44	10,4	
	Developed-EU	99	23,4	
	Total	423	100	
Size	Small	134	31,7	
	Medium	153	36,2	
	Large	136	32,1	
	Total	423	100	
Corruption	No	295	69,7	
	Yes	128	30,3	
	Total	423	100	
Court system	Fair and impartial	No	225	53,2
		Yes	198	46,8
	Honest and uncorrupted	No	224	53,0
		Yes	199	47,0
	Enforce decisions	No	227	53,7
		Yes	196	46,3
Bribery	Total	423	100	
	No	350	82,7	
	Yes	73	17,3	
Industries	Wholesale, trade, repair of motor vehicles and household goods		68	16,1
			246	58,2
	Manufacturing	41	9,7	
	Construction and real estate	68	16,1	
	Total	423	100	
Home country groups	Developed EU	238	56	
	Other developed	46	10,8	
	Big emerging	28	6,5	
	Transition - EU	8	1,9	
	Transition - non EU	53	12,5	
	Other	53	12,5	
	Total	423	100	
	Minimum	Maximum	Mean	Std. Dev.
Log (Inv in buil, mac&eqp)	0	4,45	2,894	0,733
Sqrt(Export %)	1	10	6,199	2,723
Log(Age)	0,6	2,16	1,130	0,341

Table 2: Correlation between variables

	Log (Inv in buil, mac&eqp)	Corrup.	Fair and impartial	Honest/ uncorrup	Enforce decision	Bribery	DUM1	DUM2	DUM3	DUM4	Log (Age)	Sqrt (Export %)	DUM5	DUM6	DUM7	DUM8	DUM9	DUM10	
Log (Inv in buil, mac & eqp)	1																		
Corruption	-0,17*	1																	
Fair and impartial	0,18*	-0,24*	1																
Honest/uncorrupted	0,25*	-0,27*	0,79*	1															
Enforce decisions	0,10**	-0,14**	0,44*	0,42*	1														
Bribery	-0,12**	0,37*	-0,22*	-0,25*	-0,05	1													
DUM1	-0,36*	-0,11*	-0,03	0,02	-0,02	0,02	1												
DUM2	0,37*	-0,05	0,05	-0,02	0,02	0	-0,54*	1											
DUM3	-0,11**	0,05	0,01	-0,01	-0,02	0,01	-0,15*	-0,44*	1										
DUM4	-0,04	0,15*	-0,04	0,01	0,01	-0,03	-0,16*	-0,46*	-0,13**	1									
Log(Age)	0,30*	-0,14*	0,16*	0,23*	-0,03	-0,08	-0,05	0,14**	-0,10	-0,06	1								
Sqrt (Export %)	0,27*	-0,03	0,09	0,10	0,08	-0,11**	-0,27*	0,30*	-0,16*	0,01	0,02	1							
DUM5	0,11**	-0,11**	0,05	0,06	-0,03	0	0,08	-0,05	0,06	-0,08	0,06	-0,01	1						
DUM6	-0,01	0,06	0	0	-0,05	0,01	-0,02	-0,03	0,06	0	0,01	0,03	0,02	1					
DUM7	-0,03	0,05	-0,09	-0,09	-0,09	-0,04	0,09	-0,02	-0,03	-0,03	-0,09	-0,03	-0,03	-0,02	1				
DUM8	0,02	-0,13**	0,26*	0,24*	0,17*	-0,05	0,10**	-0,04	0,02	-0,07	0,15*	0,07	-0,13**	-0,10**	-0,04	1			
DUM9	-0,04	0,01	-0,08**	-0,18*	-0,18*	0,04	-0,05	-0,06	-0,01	0,14*	0,09**	-0,14**	-0,12**	-0,10	-0,03	-0,14*	1		
DUM10	-0,03	0,09*	-0,12*	-0,07	0,06	0	-0,10	0,12**	-0,08	0	-0,19*	0,04	-0,40*	-0,32*	-0,11**	-0,47*	-0,43*	1	
Log(Size)	0,54*	-0,03	0,12**	0,16*	0,08	-0,02	-0,33*	0,37*	-0,13**	-0,06	0,33*	0,26*	-0,04	0,04	-0,01	0,03	0,04	0,03	-0,05

*P < 1 %, ** P < 5 %; DUM 1, 2, 3, and 4 are industry types; DUM 5, 6, 7, 8, 9 and 10 are home country-groups

Table 3: Regression analysis**Dependent Variable: Firm, how much spend on new buildings, machinery and equipment**

	unstand. B	std. error	stand. B	t	sig.	collinearity tolerance	VIF
(Constant)	0,747	0,311		2,398	0,017		
Corruption	-0,191	0,095	-0,115	-2,001	0,047	0,77	1,299
Fair and impartial	-0,091	0,125	-0,062	-0,724	0,470	0,356	2,813
Honest/uncorrupted	0,249	0,127	0,170	1,961	0,050	0,343	2,919
Enforce decisions	0,008	0,086	0,005	0,089	0,929	0,756	1,322
Bribery	-0,022	0,110	-0,011	-0,202	0,840	0,804	1,244
DUM1	-0,450	0,152	-0,224	-2,956	0,003	0,452	2,213
DUM2	0,079	0,123	0,053	0,643	0,521	0,391	2,555
DUM3	-0,114	0,158	-0,049	-0,724	0,470	0,556	1,799
Age	0,236	0,122	0,110	1,935	0,054	0,797	1,254
Exports (%)	0,020	0,015	0,075	1,353	0,178	0,828	1,208
DUM5	0,366	0,159	0,149	2,297	0,023	0,933	1,072
DUM6	-0,022	0,175	-0,007	-0,125	0,901	0,972	1,029
DUM7	0,202	0,429	0,025	0,471	0,638	0,961	1,04
DUM8	0,023	0,158	0,011	0,148	0,882	0,849	1,178
DUM9	0,075	0,124	0,050	0,604	0,547	0,369	2,707
Size	0,351	0,057	0,368	6,152	0,000	0,716	1,396

R = 0,653

F = 10,44

Significant at 0,000000

Durbin-Watson = 1,772

N = 423

DUM1: Wholesale, trade, repair of motor vehicles and household goods

DUM2: Manufacturing

DUM3: Construction and real estate

DUM5: Other developed countries

DUM6: Big emerging countries

DUM7: Transition, EU member countries

DUM8: Transition Non EU member countries

DUM9: Developed EU

THE RELATIONSHIP AMONG CHARISMATIC LEADERSHIP, ETHICAL CLIMATE, JOB SATISFACTION AND ORGANIZATIONAL COMMITMENT IN COMPANIES

Cemal ZEHİR
Ebru ERDOĞAN
Dogan BASAR

Gebze Institute of Technology, Turkey

ABSTRACT

The aim of this study is to survey the relationship between the ethical climate, leadership behavior in terms of charismatic leadership and organizational commitment regarding affective and continuance commitment. It is noted that this examine is based on a survey of 626 people who work in national and multinational companies in Turkey for comparing relationship between the factor analysis, reliability, correlations and regressions. As a consequent, all hypotheses are supported and positively related.

Key Words: Leadership, Job Satisfaction, Ethical Climate and Organizational Commitment

INTRODUCTION

The main purposes of this research are investigating: (i) the dependant variables that influences on independent variables as job satisfaction and organizational commitment; (ii) the effects of job satisfaction on organization commitment; and (iii) the mediator effects of job satisfaction.

In addition, a positive relationship between job satisfaction and organizational commitment has been reported in several studies (Bartle, Dansby, Landis and McIntyre 2002; Redfern, Hannan and Norman 2002; Kim, Leong and Lee 2005).

The links between employees' commitment to their organizations and satisfaction with their jobs have been the subject of a large amount of empirical research, and still there seems little agreement about the causal connections between these two important employee attitudes (Rayton, 2006). Job satisfaction is one of the most researched phenomena in organizational behavior literature, and it is defined as the extent to which a worker feels positively about his or her job (Odom, Boy and Dunn 1990).

The purpose of this paper is to examine the relationship between organization's ethical climate, leadership behavior as charismatic leadership and job satisfaction and organizational commitment as it can be seen in Figure 1. If there is a significant relationship between job satisfaction and organizational commitment existing independent outcome variables, there may be a positive ethical climate through charismatic leadership that brings out satisfaction and commitment.

LITERATURE REVIEW AND RESEARCH HYPOTHESES

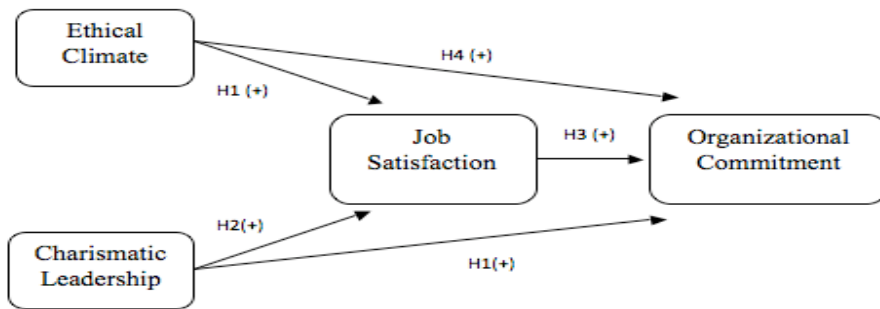


Figure 1: Research Model.

The paper begins with a theoretical background, followed by an explanation of the research design and continues with express research methods and results. Finally, results are discussed in the light of previous theory.

Ethical Climate

Climate refers to the ways organizations operationalize routine behaviors and the actions that are expected, supported and rewarded (Schneider and Rentsch, 1988). On the other hand, due to differences in individuals' positions, work groups, and employment histories, perceptions of organizational climate may vary within the firm (Victor and Cullen, 1988). According to Schneider (1975) there is no single type of work climate depending on this statement; an organization, subunit and work group may consist of many different types of climates-including an ethical climate (Schneider, 1975). Furthermore, whereas such evidence suggests that unethical climates exist, it adversely implies that not all organizations' climates are perceived as unethical (Schwepker, 2001).

The organizational ethical climate has also been defined as 'the shared perceptions of what are ethically right behavior and how ethical issues should be handled' by Victor and Cullen (1988), and there are two dimensions that explain employee perception of ethical events, practices and procedures. The first dimension is named as the ethical criteria including three possible levels of ethical decision making, which are, egoism (hedonism), benevolence (utilitarianism) and principled (deontology). The second dimension is named as the loci of analysis based on three diverse referents in ethical decisions. These three loci represent individual, local and cosmopolitan in decision-making. Lastly Victor and Cullen (1987) used the 3 x 3 matrix of nine theoretically possible ethical climate types. Each of these nine cells proposes an ethical criterion to the firms for helping on decision making.

Apart from the behavior of top management, ethical codes play a major role in clarifying ethical climate to organizational members in firms. The ethical codes have been suggested as a means for promoting an ethical climate within an organization (McDonald, 1999). Higher levels of ethical behavior have been found in firms where codes of ethics are in place and enforced (Ferrell and Skinner, 1988). When codes become an active part of an employee's working knowledge, they are more likely to affect the individual's ethical decision making (Hegarty and Sims, 1979). Additionally, codes that are effectively communicated (i.e., understood) are likely to result in greater ethical behavior (Weeks and Nantel, 1992). Company policy likewise affects an individual's opportunity to behave unethically and impacts the organization's ethical climate (Schwepker, 2001).

Ethical climate and ethical attitudes are differing in content. Organizational ethical climate is defined as a composite of organizational members' perception of the ethical attitudes and how to deal with an issue. Several studies have shown that there is a relationship between the organization's ethical climate and employees' ethical attitudes. If there is inappropriate behaviors shown on top management which affect employees', the ethical attitudes are negatively affect the work groups' ethical climate. The first step of minimizing unethical behavior in work group is to consider the data of ethical climate at that time (Zehir, et al., 2003).

Creating an ethical climate via ethical codes, ethical policies and reward/punishment should reduce the chance of unethical choices as defined by the organization (Schwepker, et al., 1997). They want to create an ethical climate which aimed to impact the organization's climate.

Organizational Commitment

The studies about organizational commitment have been growing from 1970 and even its history started in 1950's. Due to significantly increasing performance in Japanese companies, American researchers have been investigating the success depending on commitment. Organizational commitment had been described as a state resulting from 'side-bets' or investments that a person accrues over time while working for an organization such as non-vested retirement benefits, job security, accrued vacation (Becker, 1960). On the other hand organizational commitment is commonly defined as employees' interest in, and connection to, an organization (Hunt et al., 1989; Meyer and Allen, 1997; Mowday et al., 1979).

Steers (1977) defined organizational commitment as the relative strength of an individual's identification and involvement in a particular organization. According to Porter (1979) organizational commitment can be measured by: (1) a strong belief and acceptance of the organization's goals and values, (2) the strong desire to belong to organization and (3) the willingness to display effort on behalf of the organization. At first Meyer and Allen (1984) initially proposed that a distinction be made between affective and continuance commitment, with affective commitment denoting an emotional attachment to, identification with, and involvement in the organization and this employee commits to the organization because he/she "wants to" (Allen and Meyer, 1990) while with continuance commitment denoting the perceived costs associated with leaving the organization and this employee remains a member of the organization because he/she "need to" (Allen and Meyer, 1990). Later, Allen and Meyer (1990) later suggested a third distinguishable component of commitment, normative commitment, which reflects a perceived obligation to remain in the organization and this employee stays with the organization because he/she "ought to" (Allen and Meyer, 1990).

Job Satisfaction

Job satisfaction has been a topic of great interests for researchers; therefore it has been studied across several decades. Job satisfaction can be defined as the "pleasurable or positive emotional state resulting from the appraisal of one's job and job experience" (Locke, 1976). On the other hand job satisfaction can be explained as individual's feeling about their job and its related aspects. According to Schneider and Snyder (1975), job satisfaction is consisted of individual's intrinsic responses that they develop as a result of their understanding of the job.

Smith, Kendall, and Hulin (1969), identify five variables of job satisfaction; the work itself, pay, and opportunity for promotion, supervision and coworkers while Churchill et al. (1969) developed seven components of job satisfaction with overall job, co-workers, supervision, company policy and support, pay, promotion and advancement and customers. In our study, one components of job satisfaction is chosen, which is the job itself.

According to Schwepker (2001), satisfaction is partially determined by policies and supervision and a firm's ethical climate are affected by both of them. The top management decides the policies depending on what they view as appropriate or inappropriate behavior. Regardless, managers like leaders play a major role in determining the organization's ethical climate and play a significant role in affecting employee's ethical behavior (Ferrel and Gresham, 1985). Therefore, the ethical climate is formed by management and becomes an important force driving not only ethical behavior but also job-related outcomes.

Charismatic Leadership

The early theoretical models have been proposed since the late 1970's (Bass, 1985; Conger and Kanungo, 1987; House, 1977; Roberts, 1985; Zaleznik and Kets de Vries, 1975). Charisma is simply one of several components of transformational leadership. Therefore, the terms of transformational and charismatic leadership became intertwined in the organizational literature (Conger and Kanungo, 1994).

In recent times, Conger and Kanungo (1987, 1988, 1992) developed a model that based on several behavioral dimension of charismatic leadership within organizations. Due to the model, charismatic leadership is an attribution relies on followers' perception of their leader's behavior. Because of their ability, they may have difference from other leaders such as formulation and articulation of inspirational vision, behaviors and actions that foster an impression. The Conger- Kanungo model proposed several distinguishing behavioral components in three diverse stages of the leadership process. The stage one (environmental assessment stage) explains environmental opportunities, constraints and followers' needs via the status quo while the stage two explains vision formulation stage. In stage three (implementation stage), managers who perceived as charismatic are tended to lead as an example to subordinates.

Ethical Climate and Job Satisfaction

As can be seen in many studies, ethics and satisfaction at the workplace are positively related (Victor and Cullen, 1987, 1988; Vitell and Davis, 1990; Deshpande, 1996; Joseph and Deshpande, 1997; Viswesvaran and Deshpande, 1996, 1998; Babin et al., 2000; Koh and Boo, 2001; Schwepker, 2001; Schwepker and Hartline, 2005; Valentine and Barnett, 2003; Weeks et al., 2004; Woodwine, 2006). Although these evidence support the positive relationship between job satisfaction and ethical climate, Schwepker(2001) found that there is no relationship between the rules of dimension and ethical climate which depends on and, did not particularly measure ethical policies while the study revealed that there is a positive association between a professional standards and job satisfaction. According to these findings the following hypothesis is offered:

H1: There is a positive relationship between ethical climate and job satisfaction for employee perception of organizations.

Charismatic Leadership and Job Satisfaction

Empirical evidence has demonstrated that charismatic leaders are viewed by their bosses as higher performers than less charismatic leaders (Hater and Bass, 1988). Bateman and Crant (2000), found that self-reported proactive personality is positively associated with supervisors' independent ratings of charismatic leadership and are positively related to participants' most significant personal achievements. Leaders are largely responsible for communicating direction and meaning among employees (Schein, 2004). Especially, transformational and charismatic leadership behaviors have been shown to have a significant effect on a work unit's collective attitudes and behavior (Judge and Piccolo, 2004). A recent study has shown that the strength of this relationship- though always positive- depended a great deal on how criteria were conceptualized, aligned and constructed (Whitman et al., 2010). So according to research in this area leads to the following hypothesis:

H2: There is a positive relationship between charismatic leadership and job satisfaction for employee perception of organizations.

Organizational Commitment and Job Satisfaction

Although there are ambiguous findings, and strong evidence exists, the organizational commitment is positively affected by job satisfaction (Dubinsky and Hartley, 1986; Johnston et al., 1990; Brown and Peterson, 1993). In addition to this outcome, another study examined the role of job satisfaction in employees' reactions to any troubles in the organization (Hagedoorn et al., 1999).

While Schwepker (2001), looked at the seven dimensions of satisfaction related to organizational commitment, but did not provide a detailed look at which dimensions individually impact organizational commitment. In addition to this study Rutherford et al. (2009), research those individual dimensions of job satisfaction influence organizational commitment. According to results; three dimensions of job satisfaction were related positively to organizational commitment, and only one dimension of job satisfaction with overall job is related to both organizational commitment. Based on these findings as well as other supporting literature, the following hypothesis is formulated:

H3: There is a positive relationship between job satisfaction and organizational commitment for employee perception of organizations.

Organizational Commitment and Ethical Climate

Research generally suggest that low levels of organizational commitment may be dysfunctional to both the organization and the individual, while high levels may be positive effects (Mathieu and Zajac, 1990) and for that reason, organizational commitment's antecedents must be identified at first if managers want to create an positive impact (Morris and Sherman, 1981; Randal, 1987).

Despite having limits, a research about marketing managers shows that the firm's ethical climate is equally related to organizational commitment. Similarly, a study done with executives found that a positive relationship between a rules-based dimension of ethical climate and organizational commitment (Schwepker, 2001). As a result, if employees perceive that their organizations are ethical, they will be more committed and research in this area leads to the following hypothesis:

H4: There is a positive relationship between ethical climate and organizational commitment for employee perception of organizations.

Organizational Commitment and Charismatic Leadership

Charismatic features of both charismatic and transformational leadership have been defined as highly associated with positive work outcomes (Avolio & Bass, 1988, 1995; Avolio, Waldman, & Einstein, 1988), i.e., level of performance (e.g., Bass, 1985, 1999; Bass et al., 2003; Kon, Steers, & Terborg, 1995), job satisfaction (e.g., Hater & Bass, 1988; Shamir et al., 1993), and organizational commitment (e.g., Pillai & Williams, 2004). Possibly the most outstanding consequence of charismatic leadership is the highest level of commitment on behalf of the leader and the followers to a common vision, mission and goal (Bennis and Nannus, 1985; House et al., 1991). According to Degroot, Kiker and Cross (2000), when the leader becomes the model of behavior to follow (Bass and Stogdill, 1990), the inspired employee should become more committed to their organization.

Commitment to change has been identified as an important aspect of behavioral intention to support change (Herscovitch and Meyer, 2002; Fedor et al., 2006). Recent studies examined the effects of charismatic leadership and trust in top management on employees' commitment to actual changes and their innovation implementation behavior and the study indicates that trust in top management is stronger related to affective commitment to change than charismatic leadership (Michaelis et al., 2009). According to these findings the following hypothesis is offered:

H5: There is a positive relationship between leadership behavior (Charismatic leadership) and organizational commitment for employee perception of organizations.

RESEARCH METHODOLOGY

Data Gathering and Analysis

This study is performed in Turkey for comparing the relationship between leadership behavior and ethical climate, which incorporates job satisfaction and organizational commitment. In this study, all the data gathered by interviewing and face to face, from 626 people who work both national and multinational companies.

A majority of the participants are males (%59,7) and the average age is about 30- 45 and slightly over one third (%37,1). Just over half (%52,7) have at least university graduate. More than half (%52,4) have 5 years working experience while almost one third (%29,8) have less than 10-year experiences. The fair of respondents are mid-level manager (%42,7).

The collected data were analyzed by the Statistical Package for the Social Sciences (SPSS) computer program and version 16.00 for the evaluation of our data. Factor analysis, correlation analysis, reliability tests, the means of the variables and regression analysis are used to analyze the relationship between variables of the research model. First of all the frequencies of demographic variables were analyzed then the average and standard deviations were calculated.

Measures

This study is developed by measurement scales, which were taken from prior studies. Five-point Likert scales has been used during the measurement which have 1 (strongly agree) to 5 (strongly disagree)

Ethical climate was ranked for 7 items with a five-point Likert scale, which developed by Qualls and Puto (1989) and used by Schwepker et al (1977).

Job Satisfaction can be defined as how the employees feel about their job and various theories have been developed for measuring job satisfaction. The Job Descriptive Index and The Job in General Index are commonly accepted also Minnesota Satisfaction Questionnaire can be found in literature. However, in our study job satisfaction was measured with the 3-item of the scale that developed by Churchill et al (1974) and Comer et al (1989) and even though the scale assesses the job itself, promotion, supervisor, payment, company policy and fellow workers, in our study the job itself used.

Although Allen and Meyer declared three dimension of commitment as affective, continuance and normative, in our study Commitment was measured with the 12-items of Allen and Meyer's (1990) model of commitment and the terms of affective and continuance commitment items were taken for the study.

A number of theoretical models have been proposed about Charismatic Leadership (e.g. Zaleznik and Kets de Vries, 1975; House,1977; Roberts,1985; Bass,1985;Conger and Kanungo,1987;). Conger and Kanungo(1987,1988,1992) developed a charismatic leadership model that focuses on several behavioral dimensions that depends on organization and followers' perceptions in our study we use the model of Conger-Kanungo (C-K) 's Charismatic Leadership Scale, including 23-item of environmental sensitivity, sensitivity to member needs, vision and articulation, personal risk, unconventional behavior and status quo.

Reliability and Factor Analysis

Descriptive statistics were used to summarize the variables while alpha coefficients were computed to assess the reliability of the scales. Single and multiple regressions were the analytical technique to test the hypotheses. Correlation analysis was used to generate the correlation matrix to understand the relationship among the variables.

Table 1: Coefficient Alfa, Means, Standard Deviations and Correlations

	Means	SD	1	2	3	4	5	6	7	8	9
1.Ethical Climate	3,5430	,88366	(0,808)								
2.Unconventional Behavior	3,5691	,83690	,162**	(0,783)							
3. Status Quo	3,6182	,90050	,166**	,156**	(0,713)						
4. Personal Risk	3,3291	,84719	,189**	,482**	,332**	(0,703)					
5. Sensitivity to Member Needs	3,7662	,76854	,222**	,338**	,425**	,531**	(0,813)				
6. Vision and Articulation	3,9754	,65708	,253**	,430**	,236**	,399**	,533**	(0,915)			
7. Job Satisfaction	3,8999	,82812	,262**	,149**	,208**	,261**	,247**	,290**	(0,761)		
8. Continuance Commitment	3,2716	,89930	,211**	,190**	,302**	,229**	,238**	,163**	,125**	(0,764)	
9. Affective Commitment	3,6834	,82145	,352**	,197**	,263**	,281**	,372**	,395**	,532**	,286**	(0,896)

Correlation is significant at the 0,01 level (2-tailed) ; Values in parenthesis are Cronbach's Alfa

Results and Findings

Table 1 shows the reliabilities, means, standard deviations and correlations for the variables in the study. Hence, as can be seen along the diagonal of the correlation matrix, each scale have satisfactory reliability with Cronbach alfa above 0,70. The correlation matrix of the variables in the regression model is also given in Table 1 and all the variables are significant and positively correlated among themselves.

Table 2: Regression Analysis Results

Independent Variables	Dependant Variables	
	Job Satisfaction	
Ethical Climate		,262***
Charismatic Leadership	Vision and Articulation	,209***
	Unconventional Behavior	-,036
	Sensitivity to Member Needs	,023
	Personal Risk	,150**
	Status Quo	,104*
Adjusted R ²	0,067	0,114
F	45,784	16,948
Sig	,000	,000

***p<0,001; **p<0,01; *p<0,05

Correlation analysis is conducted to research the relationship among the dependent variables -Job satisfaction, organizational commitment- and the independent variables -ethical climate, charismatic leadership-. As shown in Table 2, the hypothesis 1 and 2 are performed the single regression among the independent variables –ethical climate, charismatic leadership- with dependant variable -job satisfaction-. The variation of job satisfaction can be explained by the variation in ethical climate with %6,7 while the variation of charismatic leadership dimension explain by %11,4. As offered in the hypothesis, there is a positive relationship among variables except the two dimensions of charismatic leadership such as unconventional behavior and sensitivity to member needs are non-supported while overall, the model is significant. Next, the positive association is found with ethical climate ($\beta = ,262^{***}$). Hence, H1 and H2 are supported clearly also depending on correlation matrix.

Table 3: Regression Analysis Results

Independent Variables	Dependant Variables				
			Job Satisfaction (Mediator)		
		Contuniance Commitment	Affective Commitment	Contuniance Commitment	Affective Commitment
Ethical Climate		,141***	,239***	,140*	,169***
Charismatic Leadership	Vision and Articulation	-,021	,231***	-,023	,160***
	Unconventional Behavior	,094*	-,026	,094*	-,010
	Sensitivity to Member Needs	,061	,136*	,061	,131*
	Personal Risk	,054	,049	,053	-,007
	Status Quo	,225***	,098*	,224***	,062
Job Satisfaction				,006	,398***
Adjusted R ²		0,13	0,251	0,128	0,387
F		16,294	35,46	13,947	56,466
Sig		,000	,000	,000	,000

***p<0,001; **p<0,01; *p<0,05

The associations with organizational commitment and the independent variables are displayed in Table 3 whereas the job satisfaction added as a mediator in the next step. The model is significant which can be explained and seen the rest of the hypothesis. The results show that charismatic leadership is not completely related to organizational commitment. The three dimensions of charismatic leadership; vision and articulation ($\beta = -,021$), sensitivity to member needs ($\beta = ,061$) and personal risk ($\beta = ,054$) are non-support, in terms of continuance commitment; as unconventional behavior ($\beta = -,026$) and personal risk ($\beta = ,049$) are non-supported in case of affective commitment.

Moreover, the model is significant when job satisfaction is the standing role, as a mediator ($F= 13,947$; $F=56,466$). However job satisfaction has no impact on continuance commitment while there is a partial mediator effect on affective commitment ($\beta=, 006$; $\beta=, 398^{***}$).

Discussion

By contrast, we could not get the precise results that we had expected diversity between National and Multi-national companies. It must be taken into account that for the increasing globalization, diversity management has emerged as an important workplace issue, even in the traditionally non-diversified companies of Turkey. Even though we could not get the expected result in companies, what we got the result with our hypothesis.

Even though Deshpande (1996) found no relationship among job satisfaction and ethical climate, Schwepker (2001) found that ethical climate associate with pay to satisfaction. Moreover the rules (i.e., codes, policies, reprimands) creating an ethical climate are positively related to job satisfaction as we offered in our hypothesis (H1) and supported by the findings. According to Koh and Boo (2001), organizational ethics affect job satisfaction, which in turn promotes favorable job attitudes and organizational outcomes. As expected there is a positive association between job satisfaction and charismatic leadership for employee perception of organization as supported in our hypothesis (H2).

Studies have consistently reported a strong association between organizational commitment and job satisfaction (Blegen 1993; Al-Aameri 2000; Fang 2001). Meanwhile, job satisfaction was proved to positively effect on organizational commitment (Bartle et al. 2002; Redfern et al. 2002; Kim et al. 2005). Namasivayam and Zhao (2007) examined the relationships of three sub dimensions of organizational commitment were investigated and it was found that the affective commitment has stronger direct effects on job satisfaction than normative commitment; and continuance commitment had no effect. In addition to these findings, so H3 is supported with the positive relationship in our study between job satisfaction and organizational commitment while job satisfaction mediating no affect found on continuance commitment.

As expected we found a positive relationship between organizational commitment and ethical climate for employee perception of organization, similar to recent studies (Schwepker, 2001; Cullen et al., 2003). So our hypothesis (H4) is supported.

Several studies examine leader effectiveness resulting from charisma, when perhaps subordinate effectiveness is what interests most organizations. Hence, the main of effective leadership is increased positive results from subordinates and the resulting effects on desired organizational outcomes. (Degroot, Kiker and Cross, 2000). Again in a recent study charismatic leadership has been well supported in its positive influences on organizational commitment (Huang, Cheng and Chou, 2005). According to these studies Charismatic Leadership is positively related to subordinate organizational commitment like supporting in our hypothesis (H5) as supported.

Future Direction

Future research may want to compare differences between national and multi-national companies. The fact that the current study also surveyed these companies, we could not find the distinction. In further research, the sample may be enlarged to other business sectors and also

Furthermore, future research may want to examine the other dimension of job satisfaction in the same model. In our study, the job itself dimension was chosen, therefore the other dimensions relations may be examined with the same variables that we used. Similarly, as the two-dimension of organizational commitment was taken for the study, the third dimension –normative commitment-can be also added in the model. Hence, the relationship between the dimension of all dependant and independent variables should be considered.

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STRATEGIES FOR HEALTHCARE MANAGEMENT

THE STRATEGY OF MANAGED CARE HEALTH FUNDS

Yaffa Machnes
Bar-Ilan University, Israel

ABSTRACT

The study investigates the strategic management of managed care health funds. These non profit organizations are tightly regulated and face competition. They have a fixed budget but must supply patients the best medical services. The structure of the healthcare market differs among countries but they all have social responsibility. We analyze data about the quantities of drugs supplied along five years by Israeli managed care health funds organizations when prices of pharmaceuticals went down significantly. Our findings reveal the strategy of these organizations.

Kong (2009) presented a theoretical model showing that under the existing insurance schemes in the USA, the demand for brand name drugs will increase after introduction of the generics. But, in fact, most people do not hold such an insurance contract and, in most cases, the opposite happened in the USA, where the portion of generic drugs increased according to Rizzo and Zeckhauser (2009), from 19% in 1984 to 47% in 2001. The overall substitution between brand name and generic drugs cannot be studied only in a theoretical way due to the role of insurance in the reimbursement of costs, and requires an empirical investigation, which was done by several economists. The papers of Hollis (2002), Magazzini et al. (2004), Buzzelli et al. (2006), and Brekke et al. (2009) present important aspects of the trend to increased use of generic drugs.

The Israeli government agreed with the union of drugs manufacturers (pharma-Israel) that the regulated price in Israel will be the minimum price in the following eight countries: UK, Germany, Belgium, France, Spain, Portugal, Poland, and Hungary. We followed the official prices and quantities along the years 2003-2008 of four drugs whose patent protection expired during the beginning of this period, their generic substitutes appeared in the market and their price went down significantly. As for the summing of quantities, we gathered all drugs based on the same molecule and referred to the Defined Daily Dose (DDD). All these data were used to estimate the demand for pharmaceuticals by the managed care health funds.

It was found that managed care health funds were price sensitive. The total expenditure for each molecule was constant along the five years. The significant decrease in price was followed by a parallel increase in quantity in a way that the budget allocated to each molecule was kept constant. We discover that the strategy of the funds' managers was to allocate a fixed budget for each medical procedure. This strategy raises ethical issues: does the managed healthcare fund takes care on the health or whether the fund is taken care of. Patients believe that when they need medication, they get the best available treatment but the study reveals that prices of drugs are a significant factor in the supply of medication. The managed care funds administrated thousands of physicians and well controlled the supply of drugs.

THE ISRAELI HEALTH CARE SYSTEM

The first Sickness Fund was established in the Land of Israel in 1911 by young Jewish pioneers who emigrated from East Europe to Palestine, which was held by the Ottoman Empire. During 1918–1948 Palestine was administered by the British Mandate. When the State of Israel was founded in 1948, it inherited its juristic system from the British, but the health care system was more similar to that of Germany, where most of the doctors got their education before immigrating to Israel. After 18 failed attempts to introduce a National Health Insurance bill, it was finally enacted in 1995. The government collects payment for health insurance through the National Insurance Institute. All Israeli inhabitants are insured by one of the four Healthcare Funds that supply services and must insure every legal inhabitant who applies. (For reference, look at the survey, written by the Ministry of foreign Affairs (2002). There exists an official basket of services including pharmaceuticals that the Healthcare Funds provide to patients according to the *National List of Health Services (NLHS)* defined by the government, but Healthcare Funds still have degrees of freedom on the quantity of particular drugs they purchase, as the diagnosis and severity of illness cannot always be measured objectively. According to Bin-Nun (2006), during 2002 pharmaceuticals were 17.5% of the total national health expenditure, amounting to \$2.3 billion and a per capita cost of \$345. During 2002, patient co-payments represented 55% of the national expenditure for drugs. Locally manufactured drugs were 35% of the total; imports

accounted for 65%. Generic medications accounted for only a quarter of the expenditures, while brand name medications were the other three quarters.

Each of the Healthcare Funds buys pharmaceuticals as a single buyer and the largest one, Clalit Healthcare, buys more than \$900 million of medications a year (Lubort & Barel, 2009). While Clalit buys drugs for its 14 hospitals, the other 17 hospitals and clinics that belong to the government or to non-profit organizations own a purchasing company, *Sarel*, which buys pharmaceuticals and medical equipment and maintains inventory. These organizations also buy directly from manufacturers if they find a better deal.

New pharmaceuticals approved by the Ministry of Health are introduced by manufacturers to doctors, the Healthcare Funds, and the "basket committee" that defines the *NLHS*. The National Health Insurance bill expressed the need for an additional budget allocation for new technologies, but the Healthcare Funds have had to fight for it. In 2007, when Healthcare Funds introduced supplementary insurance for drugs that are not on the *NLHS*, the government prohibited such an insurance, which can increase inequality, and promised an annual endowment of about \$120 million for new technologies. The "basket committee" has to choose which drugs and technologies will be included in the *NLHS*. Pharmaceutical manufacturers present their new drugs with an estimation of the number of patients who can benefit from it. The committee takes into consideration the health benefits, prices, and total cost. Thus, the lower the number of patients in need, the greater the chances that a new drug will be included in the *NLHS* as the committee faces a fixed budget.

THE ISRAELI MARKET FOR PHARMACEUTICALS

Since 2007, the union of pharmaceutical manufacturers selling in Israel, Pharma-Israel, contracted with The Ministry of Health (2006) that the maximum price of pharmaceuticals sold in the country would be equal to the minimum price in eight European countries: UK, Germany, Belgium, France, Spain, Portugal, Poland, and Hungary. After checking prices in these eight countries each quarter, the Ministry of Health publishes the list of regulated prices of all pharmaceuticals sold in Israel. At the same time, a private company named *Yarpa* (cure in Hebrew) publishes a list of prices for more than 2000 drugs. On *Yarpa's* list, several medicines are less expensive than their regulated price as manufacturers compete and suggest prices that are lower than the regulated price for drugs that have substitutes. Prices quoted by *Yarpa* cannot exceed the regulated price and they serve as a basis for co-payment by patients.

The Healthcare Funds and hospitals are usually charged lower prices than the published *Yarpa* prices. There are no official published data about the actual price paid to manufacturers. The difference between *Yarpa* price and the actual negotiated one is estimated by Lubort and Barel (2009), who serve in the Ministry of Finance, as 15% and by Lifshitz et al. (2009; from the Ministries of Health and Law) to be larger, about 40%. Because of the missing data about the quantities and prices, the estimations differ and in 2009 the government requested the Healthcare Funds to reveal the relevant confidential data about their purchases of pharmaceuticals. Recently, files were submitted but the data have not yet been published. (Lubort and Barel and Lifshitz et al. were MBA students in Bar-Ilan and gave their personal, estimations in their theses).

As for in-patent drugs, manufacturers hold a monopoly power and can discriminate in pricing among the Israeli buyers, similar to the discrimination among different countries according their demand. The regulations that require a license to ship pharmaceuticals make price discrimination inside and outside countries feasible. Only licensed pharmacists are allowed to sell drugs and it is illegal to trade with drugs in the market. The risk of buying false drugs decreases the demand for buying drugs outside official pharmacies. Healthcare Funds and hospitals try to decrease prices either by their own administration or through *Sarel*. Development of a new drug is associated with huge sunk costs and when a new drug is ready to market the marginal costs are relatively low. Thus, manufacturers are ready to negotiate about the price with big buyers such as governments and Healthcare Funds, and to reduce the price when quantity is significant. The Israeli government would like to know the real costs, as it authorizes money to the Healthcare Funds according to the official *Yarpa* price and the number of patients reported before the inclusion of the drug in the *NLHS*. The Healthcare Funds on their part claim that the number of patients who need the drug has gone up since a new drug was included in the *NLHS* list. Klang et al. (2006) from the Clalit Healthcare Fund show the enormous increase in costs of three new drugs during 2000–2005. Though the Fund got a fixed allowance for each new drug, the number of patients treated by the new drugs increased significantly after doctors became familiar with the new medication.

PRICES OF PHARMACEUTICALS

As medicines are grasped by the public to be a necessity, they are seen by the people as a public good that the government should supply to its citizens at an affordable cost. The media, like the comptroller (2009), investigate the prices of drugs and the reimbursement system to the Healthcare Funds and to patients.

Patient co-payments vary among the Israeli Healthcare Funds. Before 2009, for a drug listed on the *NLHS*, they were paying a nominal price equivalent to \$3 a unit in Clalit Health Fund, and 15% of the price published price by *Yarpa* in the other three Funds. Since 2009, the Clalit Health Fund has also adopted the co-payment used by the other funds and is charging 15% of the *Yarpa* listed price. Like other goods and services, there is an added value tax on pharmaceuticals, which makes them even more expensive.

Similarly to other countries, pharmaceuticals are divided between in-patent drugs and generic or older brand name drugs that are no longer protected by a patent. After a drug loses its patent protection, the market witnesses competition by the generic substitutes. Kong (2009) presented a theoretical model showing that under the existing insurance schemes in the USA, the demand for brand name drugs will increase after introduction of the generics. But, in fact, most people do not hold such an insurance contract and, in most cases, the opposite happened in the USA, where the portion of generic drugs increased according to Rizzo and Zeckhauser (2009), from 19% in 1984 to 47% in 2001. The overall substitution between brand name and generic drugs cannot be studied only in a theoretical way due to the role of insurance in the reimbursement of costs, and requires an empirical investigation, which was done by several economists. The papers of Hollis (2002), Magazzini et al. (2004), Buzzelli et al. (2006), and Brekke et al. (2009) present important aspects of the trend to increased use of generic drugs.

The choice of medication depends on the insurance scheme. When managed care organizations supply drugs to their patients, for each drug they choose the less expensive drug, as shown by Katzir et al. (2009) in the case of the Israeli Maccabi Healthcare Fund. Patients who want to take the brand name drug instead of their generic substitutions have to pay half of its *Yarpa* price. This pricing system increases the proportion of generic drugs and saves resources of the Maccabi Healthcare Fund.

THE DEMAND ELASTICITY

Estimations of the demand elasticity for pharmaceuticals attracted several economists. For an example, see Rovira et al. (2001). There are several difficulties in finding a measure for thousands of products while the basket of medicines is changing rapidly as new expensive medicines appear along time. There is also a problem to define the product due to the emergence of generic substitutions for medicines whose patent has expired. The measurement of quantity is also complicated due to the different frequency of taking a dose: for example; there are medicines that patients take 4 times a day and others, once in 6 months. Economists debate about the appropriate price index: should it be the historic basket named after Laspeyres (2010) or the actual basket, which might be more relevant – the Paasche (2010) price index. Contrary to the impression that the basket of drugs changes dramatically along time, Mansley (2008) measured the use of drugs that are in the market 5 years after their patent expired in the United States and found stability in the consumption of old drugs.

Danzon and Chao (2000) made international comparisons and reached the following estimations about the price elasticity in different countries.

Country	Price Elasticity (1992)
USA, Germany, Canada	1.29
UK	0.91
Japan	0.76
France	0.67
Italy	0.36

Sattere and Vernon (2006) found that elasticity depends on the time interval of the measurement of the changes in prices and that the demand for pharmaceuticals in the USA was inelastic. When changes were measured during the forty years 1960–2000, they estimated the elasticity to be only 0.68–0.92 and for shorter periods they estimated even lower price elasticity.

Due to the development of generic substitutions, all products were defined by their molecules without distinguishing between the brand name and the generic substitution.

When price elasticity is one, it means that expenditure for each molecule remained the same after its price went down due to the increase in the consumed quantity.

In order to estimate the demand price elasticity we collected data about prices and quantities consumed. We recorded the official *Yarpa* published lists of prices during 2003–2008. As several drugs are based on the same molecule, we referred to the average price of the aggregate product and computed the average price of medicines that are based on the same molecule. The supplied quantities were registered in the center district of the country by the distributors. As for the summing of quantities, we referred to the Defined Daily Dose (DDD) and multiplied the ratio of patients who consume each molecule in our sample by the whole Israeli population.

Our findings for four drugs are shown here in Figures 1–4. On the horizontal axis is the date and the vertical axis measures price and quantity. The expenditures for these four molecules account for about one-quarter of the total expenditure on drugs that became generic in Israel during the period 2003–2008.

EXHIBIT 1

The quantity of the last medicine decreased in 2007 because of possible side effects that were found. The arrows in the four figures point to the time the drug lost its patent and generic substitution was used in Israel. In these four examples, we find that along time, the products of price and quantity are almost fixed. We have here estimations of the demand price elasticity of the four molecules. We learn that after the price went down, for the same expenditure, the decrease in price of each molecule allows a larger basket of drugs and services. When the total expenditure is constant, the price elasticity is *one*. It means that the Israeli Healthcare Funds spent a fixed budget for each of the four molecules and the reduction in price allows prescriptions of a larger quantity. Elasticity of 0.91- almost a unity was found in the UK from whom Israel inherited the juristic system, and many other ideas about public decision making. For the whole basket of pharmaceuticals, we would agree that the total budget is constant, but patients who are insured by the Healthcare Fund will not agree with the fact that the price of a drug determines the treatment they get. One would agree with a unit elasticity with a value of about one for the whole basket of pharmaceuticals, but the idea of keeping a fixed budget for each single molecule cannot be understood.

EXHIBIT 2

The price reduction and induced change in quantity can be seen, leading to changes in the production function of health, as can be seen in Figure 5. The decrease in price increased the purchasing power of the Healthcare fund and its real budget. The decision to use the additional purchasing power to buy more of molecule X, can be seen by moving from point A to point C by increasing the quantity supplied of molecule X from *a* to *b*. Such specific types of changes cannot be explained by a general production function of health and were not found in any econometric estimation of a production function of health. The decrease in price is exogenous to the Healthcare Funds and calls for increased use of the less expensive drug. Nevertheless, there is no medical reason to keep the expenditure on a specific molecule constant. One would expect the Israeli Healthcare Funds to find the optimal basket of services along the new feasible real budge and to consider a possible increase in the other alternative services included in *NLHS*.

CONCLUSION

The Israeli Healthcare Funds are trying to reduce prices but prices of in-patent drugs are quite rigid. Along time, when the patent expires and generic drugs appear in the market, the funds adjust the prescribed quantities to the changes in the price. The data show that the budgets allocated to the specific molecules are well-controlled by the Israeli Healthcare Funds and the quantity of pharmaceuticals provided to patients depends on their price.

EXHIBIT 1

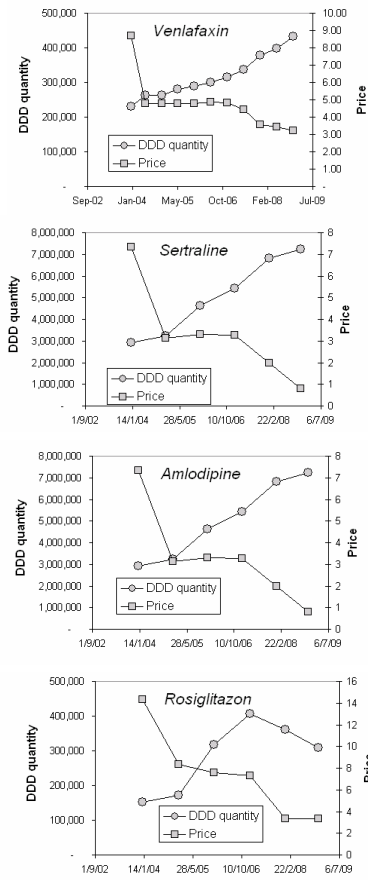
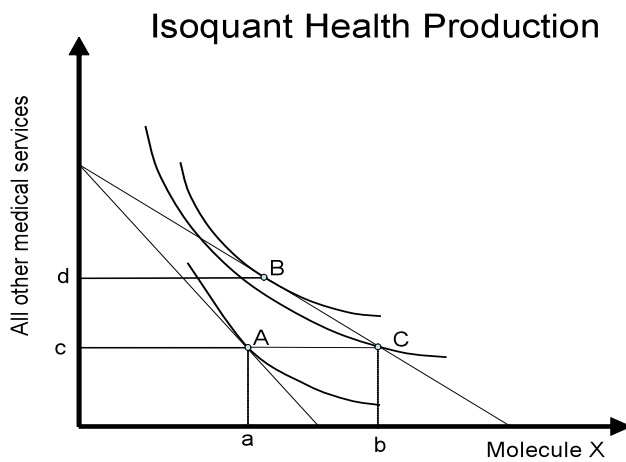


EXHIBIT 2

Figure 5: Changes in price and quantity



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RELATIONSHIP MARKETING APPROACH AND AN APPLICATION IN SERVICE SECTOR: KARAMAN PRIVATE HEALTH ORGANIZATIONS

**Selda Başaran Alagöz
Nezahat Ekici
Mahmut Sami İşlek**

Karamanoğlu Mehmetbey University, Turkey

ABSTRACT

The concept of relationship marketing is embraced as a solution for increasing competition conditions, the markets which have sophisticated, participative and demanding consumers and the goods/services which have shorter life-cycles. The necessity to generate consumers who are satisfied beyond the expectations and even to conduct a company – customer relationship which can be defined as an affinity has appeared in a market where such conditions exist.

Nowadays, companies' efforts to have sustainable competitive advantage have become intensified. These efforts are both more considerable and more apparent in the service sector companies. This is related to intangible being of service and concurrent production and consumption feature of service. Here, at this point, the necessity to use relationship marketing approach commonly appears for the service sector companies. Long-termed, close and one-to-one customer relations in service sector have a key significance in terms of creating customer loyalty. Like in other service companies, conducting close relations with customers and increasing the level of provided service are inevitable situations in health sector. In this study, the being of relationship marketing approach and its reflection on customers have been tried to be measured. For this purpose, the literature background of relationship marketing has been given first, and then, at the research part, a survey has been applied in Karaman, Turkey and the data has been analyzed statistically.

Key Words: *Relationship Marketing in Service Sector, Private Health Organizations, Relationality*

INTRODUCTION

Nowadays, increasing competition conditions have obligated a long-term relationship between company and customers. This relationship which is called as "Relationship Marketing" in marketing literature is embedded on substantial essentials (Yurdakul, 2007 : 1).

Companies are looking for new marketing strategies to survive and see their future due to the rising competition in world trade. Particularly, since substitute goods have close prices and product quality to each other, companies proved the way of using different marketing strategies to sell the products. These different marketing strategies congregate as modern marketing in marketing literature. So, relationship marketing is one of these modern marketing strategies which is old as an opinion but conceptually a recently developed marketing strategy (Gülmez and Kitapçı, 2003 : 81).

After mid-1990's, most of the companies see customers as assets. The main reason to see customers as assets is the challenge to reach new customers due to the conditions of competition and the cost of this is much more than keeping the existing customers. Relationship marketing emerged as a natural result of this need (Kulabaş and Sezgin; 2003; 2). Again, 1990s is seen as a period that the concept of relationality is accepted due to the fact that resemblance, competition, customer knowledge have been increased and besides the price of traditional advertising media has decreased. Whereas some executives state that; it is needed to focus on keeping the consumer and increasing the number of consumers, some academicians argue that relationship marketing is a new marketing paradigm (Selvi; 2007 : 8).

The Concept of Relationship Marketing and Service Sector

Even though relationship marketing concept has so many definitions, generally it is compared with other approaches of marketing in many academic studies. Relationship marketing is first defined by Berry in 1983. Berry defines relationship marketing as “attracting, maintaining and – in multi service organizations – enhancing customer relationship” (Berry, 1983 : 236). Grönroos’ definition of relationship marketing, which is commonly in use, indicates the efforts to reach the parties goals, to conduct, keep alive and develop long-term relationships between the parties which are the subjects of the business relationship (Grönroos; 1996: 5). As wider definition, Morgan and Hunt define the relationship marketing as follows: “Relationship marketing is conducting and developing good relationships with one or more of goods suppliers, service suppliers, competitors, non-profit organizations, public organizations, ultimate consumer, intermediary customers, functional departments, employees and units of the company and all marketing activities to maintain these relationships” (Morgan ve Hunt, 1994 : 21-22). As is understood by these definitions, strengthening the relationships, making consumers loyal and converting the bunch of unknown faces to continuous consumers are the focus point of relationship marketing approach . (Karakaş, Bircan ve Gök, 2007 : 5) .

In current competition condition, companies digress to evaluate customers just with a commercial relationship and think that customers are members of the company who advocate the goods and services and also partners (Kotler, 2000:197). The long-term relations which are conducted to the consumer by relationship marketing applications provide benefits not only for service providers but also for consumers. From the service provider point of view, these relations set an obstacle to competition, decrease the price competition and provide to gain more revenue from each customer by reducing the costs. Another benefit is the effect of word of mouth marketing. Treating to the customers so as to gain advantage from them in long-term will cause long-term customer loyalty and positive word of mouth marketing effect. Consumers who have long-term relationship with the company have three kinds of benefits next basic service provided from company; (Selvi; 2007 : 45 – 46)

- Benefits gained from trust
- Social benefits
- Benefits gained from special treatment

Relationship marketing is a marketing approach which argues those consumers who are also natural players of marketing channel should be active like seller at least. This requires more cooperation between two sides (Tek; 1999 : 57). In this respect, companies are trying to understand and adopt so many new concepts. These concepts are intimacy, interaction, loyalty and partnership. These concepts are the result of desires of companies’ conducting one to one relationships with the customer, being partner with the customer and having and maintaining long-term relationship with the customer (Erbaşlar, 2009 : 1). These results are supporting Grönroos’ statement which is “relationship marketing is the marketing efforts which are based on relations, communication and connections”.

Customer satisfaction and customer loyalty are very significant concepts in relationship marketing approach. While customer satisfaction is related to how the performance goods/services compensate the customer expectations, customer loyalty is related to if the customer prefer the company again and want to maintain his/her relationship again with the same company. According to this, while customer satisfaction is prerequisite for having customer loyalty, customer loyalty is prerequisite for relationship marketing. Creating customer loyalty to keep customer satisfaction at high levels is only possible when the needs and wants of the customer is learned correctly and produce private service and show the value given to the customer with close relationships (Karakaş, Bircan and Gök, 2007 : 7) .

Relationship marketing is a marketing approach that changes the company culture and adds new values to it (Bakıştaş; 2008 : 232). One of the key points of the implementation of relationship marketing is adopting the relationship marketing approach from the whole business organization. This brings organizational change. To actualize the organizational change, employees head to change and personal responsibility and on the other hand focus on the customers. Concurrently, the employee needs to disremember him/herself in some manner and have the real capacity to overcome complex actions to have a cooperation (Alagöz ; 2004: 3). At this point, for implementing the relationship marketing approach effectively, the organizations’ need of having a customer-focused approach emerges. (Yurdakul and Dalkılıç; 2006 : 258).

In banking, insurance and tourism businesses; relationship marketing implementations are in use constantly. In these sectors, long-term, close and one to one customer relationships are so important. Just like other service

sectors, conducting a close relationships with the customers and increasing the service quality are inevitable in terms of competition. Service approach and implementations in health sector are becoming more and more important day by day. Due to the fact that the subject is human, service demander should be active at least as service providers. It is seen that there are relationship marketing implementation in the sector, but these implementations are more successful in private sector.

The Research

Within the context of the research, a survey was implicated for measuring the being and reflections of relationship marketing implications in private health organizations which are located in Karaman. For preparing the survey questions, former studies and especially the research made by Kılınç (2008) were used. The questionnaire form is composed by 5 demographic questions, 27 statements and 5 directional questions. To adjust answers and expectations aimed at statements about doctor, nurse, other employees and general services, fivefold Likert Scale (1. Totally disagree – 5. Totally agree). Due to time and cost constraints, research was held only in Karaman's private health organizations and sample extend was determined as 300 participations, but 210 evaluable surveys were collected. The results of the research were evaluated with SPSS 16.0 software program. The reliability of the research was measured by alpha coefficient and alpha coefficient of 27 answers was found 0.826. In the evaluation of the research results, frequency dispersion was used for the questions which were designed in nominal scale and arithmetic average and standard deviation was used for the questions which were designed in likert scale. Considering 5 directional questions which were used to establish the research hypothesis, in testing the hypothesis, t-test was used.

Results of the Research

According to Table 1; 37,6 % of the participants are women, 62,4 % are men; 28,1 % are between 36 – 45, 22,4 % are between 46 – 55, 18,6 % are between 26 – 35 years old; 46,7 % have high school, 25,2 % have bachelor, 24,3 % have primary school degree and 30,5 % have 1001 – 1500 TL and 16,5 % have 1501 – 2000 TL income per month.

Table 1: Demographic Features of the Participants

Income per Month	Frequency	Percentage	Sex	Frequency	Percentage
Less than 500 TL	23	11,0	Female	79	37,6
501-1000 TL	62	29,5	Male	131	62,4
1001-1500 TL	64	30,5	Total	210	100,0
1501-2000 TL	34	16,5	Age		
2001-2500 TL	18	8,9	18-25	22	10,5
2501+ TL	9	4,3	26-35	39	18,6
Total	210	100,0	36-45	59	28,1
Education Status			46-55	47	22,4
Primary	51	24,3	56-65	34	16,2
High school	98	46,7	65+	9	4,3
Bachelor	53	25,2	Total	210	100,0
Master	8	3,8			
Total	210	100,0			

According to Table2 , when participants' social security systems are measured, it is seen that 27,1 % of them have SSK (Social Insurance Institution), 21,4 % of them have Bağ-Kur (Social Security Organization For Artisans And The Self-Employed), 14,3 % Emekli Sandığı (Government Retirement Fund) and 11,9 have private insurance.

Table 2: Participants Social Security Sytems

Which social security system do you have?	Frequency	Percentage
SSK(Social Insurance Institution)	57	27,1
Bağ-kur(Social Security Organization For Artisans And The Self-Employed)	45	21,4
Green Card	14	6,7
Private Insurance	25	11,9
Mercenary	17	8,1
Emekli sandığı (Government Retirement Fund)	30	14,3
None	22	10,5
Total	210	100,0

According to Table 3; when the patients' expectations about doctor services devoted to relationship marketing approach are examined, it is found that patients consider "Attention in the sense of secrecy of patient information" statement significant ($\bar{X}=3,14$) and they have high expectations about "The availability when it is needed" ($\bar{X}=2,60$), "Kindness in sense of attitude and behavior" ($\bar{X}=2,21$) and "Precision in the sense of feeling him/herself responsible to the patients" ($\bar{X}=2,19$).

Table 3: Dispersion of the Patients' Expectations about Doctor Services Devoted to Relationship Marketing Approach

Statements about Doctor Services Devoted to Relationship Marketing Approach	N	Average	Standard Deviation
1. The availability when it is needed	210	2,60	1,593
2. Kindness in sense of attitude and behavior	210	2,21	1,180
3. Sufficiency in the sense of time for a patient	210	1,50	0,854
4. Sufficiency in the sense of paying attention to the patient	210	1,48	0,740
5. Service and advice sufficiency after the examination	210	2,28	0,746
6. Sufficiency in the sense of personal cleanness and hygiene	210	1,25	0,497
7. Competence about communication	210	1,79	0,743
8. Perfection in doctor's own field	210	1,76	0,621
9. Precision in the sense of feeling him/herself responsible to the patients	210	2,19	1,596
10. Attention in the sense of secrecy of patient information	210	3,14	1,379

According to Table 4; when the patients' expectations about nurse services devoted to relationship marketing approach are examined, it is found that the patients have high expectations on "Paying attention effectively in emergency" ($\bar{X}=3,42$), "Attention to the patient privacy during the examination and care" ($\bar{X}=3,04$) and "Frequency of paying attention to the patient" ($\bar{X}=2,81$).

Table 4: The Dispersion of the Patients' Expectations about Nurse Services Devoted To Relationship Marketing Approach

Statements about Nurse Services Devoted To Relationship Marketing Approach	N	Average	Standard Deviation
1. Attitude towards the patients	210	2,51	1,551
2. Sufficiency in the sense of meeting the expectations	210	2,63	1,569
3. Frequency of paying attention to the patient	210	2,81	1,414
4. Availability when it is needed	210	2,64	1,519
5. Paying attention effectively in emergency	210	3,42	1,255
6. Attention to the patient privacy during the examination and care	210	3,04	1,425

According to Table 5; when the patients' expectations about other employees services devoted to relationship marketing approach are examined, it is found that the patients have high expectations on "Attention and delicacy to patients' personal problems" ($\bar{X}=3,30$), "Sufficiency in the sense of meeting the expectations" ($\bar{X}=3,01$) and "Enable the check in – staying – check out operations" ($\bar{X}=2,85$).

Table 5: The Dispersion of the Patients' Expectations about Other Employees Services Devoted To Relationship Marketing Approach

Statements About Other Employees Services Devoted To Relationship Marketing Approach	N	Average	Standard Deviation
Attitude to the patients	210	2,76	1,528
Sufficiency in the sense of meeting the expectations.	210	3,01	1,443
Attitude to patients' relatives	210	2,25	1,565
Attention and delicacy to patients' personal problems	210	3,30	1,460
Enable the check in – staying – check out operations	210	2,85	1,168

According to Table 6; when the patients' expectations about hospital's general services devoted to relationship marketing approach are examined, it is found that the patients have high expectations on "Lay out of the hospital" ($\bar{X}=3,30$), "Physical condition of hospital (rooms , labs)" ($\bar{X}=3,08$) and "Services of hospital during the overtime period" ($\bar{X}=2,80$).

Table 6: The Dispersion of the Patients' Expectations about Hospital's General Services Devoted to Relationship Marketing Approach

Statements about Hospital's General Services Devoted To Relationship Marketing Approach	N	Average	Standard Deviation
1- The Physical condition of the hospital (rooms , labs)	210	3,08	1,215
2- Comfortable and peaceful condition of the hospital	210	2,64	1,458
3- Services of the hospital during the overtime period	210	2,80	1,660
4- Lay out of the hospital	210	3,30	1,484
5- Asking or evaluating the level of complaints and pleasures	210	1,97	1,622
6. Transportability of the hospital	210	2,38	1,549

According to Table 7; when the patients' reactions to relationship marketing implementation are examined, the answer of "While considering the services you have in hospital, which of the following defines you best?" question is as follows: a guest is 61 %, patient is 30,5 % and partner is 8,6 %. With the light of these answers, we can say that Karaman's private health organizations are successful on developing good relationships with customers that can even be described like an affinity.

The question of "If you have trouble about the services of the hospital, would you prefer to go another one?" is answered as 58,6 % yes and 41,4 % no. This result makes us think that hospitals serve additional values except from service quality to keep the customers. When the answer of "Do hospital's services meet the expectations?" question is examined, it is seen that participants say yes in 53,3 % and no in 46,9 %. At this point, it can be said that there is a good level of satisfaction but it is not at the desired point. Another statement which is "Do you recommend to the others the hospital that you get the service now?" has dispersion like 64,8 % yes and 32,2 no. As is understood by the results, the customer who is satisfied is willing to state his/her satisfaction. These results bring us to the result of word of mouth effect which comes along with good designed relationship marketing implementations.

Tablo 7: The Attitudes of Participants after Having the Service within Relationship Marketing Implementations

While considering the services you have in hospital, which of the following defines you best?	Frequency	Percentage
Patient	64	30,5
Guest	128	61,0
Partner	18	8,6
If you have trouble about the services of the hospital, would you prefer to go to another one?		
Yes	123	58,6
No	87	41,4
Total	210	100,0
Do hospital's services exactly meet your expectations?		
Yes	112	53,3
No	97	46,9

Total	210	100,0
Do you recommend to the others the hospital that you get the service now?		
Yes	136	64,8
No	74	32,2
Total	210	100,0

According to Table 8; when the attitudes of the participants after the services within relationship marketing are measured by independent sample t-test, it is found that there is no significant difference between the groups ($p>0,05$) and the hypothesis of there is no difference on the attitudes of participants after the services within relationship marketing with respect to sex has been accepted.

Table 8: The Attitudes of the Participants after the Services within Relationship Marketing with Respect to Sex and Independent Sample T-Test

	N	Sex	Arithmetic Average	Standard Deviation	T	Significance Level**
If you have trouble about the services of the hospital, would you prefer to go to another one?	131	Male	1,37	,484	-1,961	0,051
	79	Female	1,51	,528		
Do hospital's services meet your expectations exactly?	131	Male	1,46	,500	-0,664	0,507
	79	Female	1,51	,528		
Do you recommend to the others the hospital that you get the service now?	131	Male	1,32	,469	-1,394	0,165
	79	Female	1,42	,522		

*Scale : 1.Yes – 2. No

According to Table 9; when the attitudes of participants after the services within relationship marketing are measured by independent sample t-test, it is found that there is no significant difference between the groups ($p>0,05$) and hypothesis of there is no difference on the attitudes of participants after the services within relationship marketing with respect to educations status (between high school and lower level and upper level) has been accepted.

Table 9: The Attitudes of Participants after the Services within Relationship Marketing with Respect to Education Status and Independent Sample T-Test

	N	Education Status	Arithmetic Average	Standard Deviation	T	Significance Level**
If you have trouble about the services of the hospital, would you prefer to go to another one?	149	High School -	1,41	,493	0,433	0,666
	61	High School +	1,44	,533		
Do hospital's services meet your expectations exactly?	149	High School -	1,52	,536	0,879	0,380
	61	High School +	1,46	,500		
Do you recommend to the others	149	High	1,32	,466	1,940	0,054

the hospital that you get the service now?	149	School -	1,32	,466	1,940	0,054
	61	High School +	1,46	,535		

*Scale : 1.Yes – 2. No

According to Table 10; when the attitudes of participants after the services within relationship marketing are measured by independent sample t-test, it is found that there is no significant difference between the groups ($p>0,05$) and hypothesis of there is no difference on the attitudes of participants after the services within relationship marketing with respect to income status (between lower 1500 TL and upper 1500 TL) has been accepted.

Table 10: The Attitudes of Participants after the Services within Relationship Marketing with Respect to Income Status and Independent Sample T-Test

	N	Income	Arithmetic Average	Standard Deviation	T	Significance Level**
If you have trouble about the services of the hospital, would you prefer to go to another one?	149	1500TL -	1,44	,551	-,772	0,441
	61	1500TL+	1,38	,489		
Do hospital's services meet your expectations exactly?	149	1500 TL-	1,50	,515	-,908	0,365
	61	1500TL+	1,43	,499		
Do you recommend to the others the hospital that you get the service now?	149	1500 TL-	1,37	,498	-,553	0,581
	61	1500TL+	1,33	,473		

*Scale : 1.Yes – 2. No

CONCLUSION

Relationship marketing as an idea that enables to manage company – customer relationship better aims to sustain the relationship not only with new customers but also with existing customers. In today's competitive environment, only goods/services focused strategies are not sufficient and customer focused strategies are needed as well. Especially, it is clearer to be seen in service sector. Another deliberative point in this issue is customer focused strategies are not embraced for customers and it is the benefit that both parties have in the long run. For this purpose, companies should identify the components of the relationships well and analyze the concepts of mutual interaction, trust, partnership, loyalty, service quality and shared values again and again in the axis of relationship marketing.

The results of the study which is performed for the being of relationship marketing approach in Karaman private health organizations and its reflection to the customer show that customers are willing to have a closer and trust-based relationship with doctors, nurses, other employees and general health services. When the expectations in the sense of doctor services are examined, it is seen that participants have expectations about "The availability when it is needed", "Attention in the sense of secrecy of patient information" and "Kindness in sense of attitude and behavior". When the expectations in the sense of nurse services are examined, just like the same matter in "doctor issue" it is seen that participants have expectations about "Attention to the patient privacy during the examination and care" and also "Paying attention effectively in emergency" and "Frequency of paying attention to the patient". When the expectations in the sense of other employee services are examined, it is seen that participants have expectations about "Sufficiency in the sense of meeting the expectations", "Attention and delicacy to patients' personal problems" and "Enable the check in – staying – check out operations". In the meaning of general services, they state that they give importance to issue of providing service in overtime period.

In the scope of the research, when the attitudes of participants after having the service within relationship marketing implementations is examined;

- They stated that they feel like a guest as an answer of “While considering the services you have in hospital, which of the following defines you best” question. This result represents that there is a relationship which is appropriate to the relationship marketing purpose and cooperation which is based on mutual benefit and trust.
- When participants were asked “If you have trouble about the services of the hospital, would you prefer to go to another one” question, participants answered like 58,6 % “Yes” and 41,4 % “No”. This result makes us think that there are some additional values except from service quality that keep the customers. In small cities like Karaman, besides from service quality, affinity and know one another well are also the factors which tie the customers to the company with strong connections. High percentage of “No”, which is 41,4 %, can be explained with these kinds of reasons.
- When the question of “Do you recommend to the others the hospital that you get the service now?” is asked, participants say “Yes” in 64,8 % and “No” in 32,2 %. As is understood by the results, the satisfied customer is willing to indicate his/her satisfaction. This result brings us to the result of word of mouth effect which comes along with good designed relationship marketing implementations.

When the attitudes of participants after the services within relationship marketing with respect to sex, income status and education status are examined with independent t – test, significant differences could not be found. As is mentioned before, this study is a pilot study due to the time and cost constraints. To make the study in large scales and in the environment where possibly more health organizations have will give us deeper knowledge about the issue.

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WORD-OF-MOUTH (WOM) IN HEALTH CARE MARKETING: A STUDY ON DIMENSIONS OF WOM TOWARDS PHYSICIANS

Mehpare Tokay Argan
Bilecik University, Turkey

Metin Argan,
Anadolu University, Turkey

Alper Ozer
Ankara University, Turkey

ABSTRACT

Word-of-mouth (WOM) strategy in marketing is a key area because many consumers in various sectors rely on the product experiences and advice of the competent people. In health care sector, WOM is also an important indicator as advertising tool. The main purpose of this study revealed dimensions health based WOM and relationships the dimensions and between encouraging, discouraging, and satisfaction. Results of the study revealed three dimensions, which are “tie strength and relationship”, “health knowledge and experience”, and “similarity and preference awareness”. The results of the study suggest that these WOM dimensions related to health have significant effects on level of satisfaction, encouraging, and discouraging. The study has significant implications as to how well health marketing practitioners and managers implement WOM marketing strategies and advice dimensions of health practices.

Keywords: *health, health care, health marketing, word-of-mouth, WOM, WOM marketing*

INTRODUCTION

In the health care industry, there are several factors that affect who, why, and when consumers utilize health care services (Cooley and Madupu, 2009). Consumers find word-of-mouth as compelling source of information. Although the concept of word-of-mouth (WOM) had been described as early as 1898, it had to wait until early 2000 are to reemerge as a popular subject (Graham and Havlena, 2007). In today, many of consumers in variety sectors receive information from different sources, such as physical surroundings, mass media, and other persons. Information from other persons about goods and services may come from sales personnel or from other consumers. In marketing, word of mouth (WOM) is an important strategy and normally used to describe advice from other consumers. The interactivity, speed, and lack of commercial bias of WOM make it a very effective source of information about prospective consumer choices, particularly with regard to services for which prepurchase experience may be limited. In consumer choice, WOM is often the dominant factor; for example, Keaveney (1995) observed that positive word of mouth (PWOM) was the main source of information when people found a new service supplier.

Despite WOM's re-emerging role in marketing communications and relatively sufficient number of books published on the subject; the academic researches and publications on WOM related to health sector are still limited. However, there is a growing effort from practitioners of researching different aspects of WOM (Mangold et al., 1999). In this study, the researchers investigated the dimensions related to word-of-mouth on physician preferences and, satisfaction, positive and negative word-of-mouth behaviors based on referrals from reliable sources.

LITERATURE REVIEW

The literature on direction of effects of WOM has two streams. These are positive and negative WOM (Anderson, 1998; Richins, 1983). In a study that compares positive and negative WOM, scholars report an interesting finding. The researchers found that number of people producing positive WOM is bigger than individuals who produce negative WOM, and the occurrence of positive as well as negative WOM in some instances is positively related to market share (East et al., 2007). Based on the reasons discussed above and considering literature research, the researchers have come up with the following WOM dimensions that are believed to play a role in a success of a physician health service. These dimensions are as follows: (1) Tie Strength and Relationship, (2) Health Knowledge and Experience and (3) Similarity and Preference Awareness.

Tie Strength and Relationship

The main one factor affecting WOM is the power of relationship between decision maker and recommendation source. Duhan et al. (1997) pointed out that recommendation sources used in consumer decision heuristics are usually studied under the rubric of word-of-mouth (WOM) communication. WOM recommendation sources can be categorized according to the closeness of the relationship between the decision maker and the recommendation source, or the "tie strength" (Brown and Reingen, 1987). The tie strength of a relationship is defined as strong if the source is someone who knows the decision maker personally. The tie strength of a relationship is defined as strong if the source is someone who knows the decision maker personally (Duhan et al., 1997). So, many of consumers rely on WOM to evaluate credence qualities of services (Berry, 1980; Cooley and Madupu, 2009), such as health, movie, education etc.

Health Knowledge and Experience

Many of consumers have an experience or familiarity about a good or service. In this manner, the concept of prior knowledge is defined in terms of the extent of these experiences or involvement (Duhan et al., 1997). The knowledge and experience on good or services has been widely researched (e.g., Alba and Hutchinson, 1987; Brucks 1985; Duhan et al., 1997; Herr, 1989; Murray, 1991; Park, Mothersbaugh and Feick, 1994) and commonly refers to information that is before external search occurs. Johnson and Russo (1984), and Brucks (1985) founded that there have been a significant relationship between prior knowledge and ability to process new information. According Park and Lessig (1981) and, Duhan et al. (1997) prior knowledge has been defined in at least three conceptually different ways: experience-based prior knowledge, subjective prior knowledge, and objective prior knowledge.

The tie strength of relationship between WOM source and receiver is related to knowledge and experience about a specific subject. If knowledge and experience of health services is high, the trustworthiness also will be high. According to Duhan et al. (1997), the type and level of prior knowledge will be important indicators in terms of next consuming behavior.

Nelson (1970) argued experience dimension of WOM and suggested that the inclusion of experience qualities were necessary because people would give more personal recommendations (WOM) of products possessing experience qualities as they have tried them and can better explain the product to the next person (Cooley and Madupu, 2009).

Similarity and Preference Awareness

A rational customer often also considers how likely that the recommendation will succeed, that is, meet the purpose of the application of the recommendation. Therefore, not only do we need to observe the requirements of the customer, we also have to consider their preferences. One of the early studies on the effect of the positive and negative WOM on movie appreciations reports that negative WOM has a significant effect on movie preference (Burzynski and Bayer, 1977). The researchers found that the negative WOM is so affective even in some cases respondents reported that they redeem their tickets immediately after being exposed to negative information on a movie.

Ranaweera and Prabhu's (2003) study asserts that there is a positive correlation between satisfaction and the word of mouth. Rust et al. (1996) claimed that word-of-mouth recommendations from friends, family and colleagues who are satisfied with a company or service have a measurable impact on sales. Mittal and Lassar

(1998) find that satisfied customers outnumber dissatisfied customers by more than four to one in the health care and car repair services (East, Hammond and Wright, 2007). Three hypotheses were developed for empirical investigation of effects of WOM factors about in advising consumers to going a physician, encouraging or discouraging consumers after positive or negative WOM, and satisfaction after WOM, based on the review of literature, implication, and discussions. These hypotheses are:

H1: The dimensions related to word of mouth on health are positively associated with advising to go a physician.

H2: The dimensions related to word of mouth on health are positively associated with the level of satisfaction that a person gets from a physician.

H3: The dimensions related to word of mouth on health are positively associated with discouraging to go a physician after negative word-of-mouth.

METHOD

Research and Questionnaire Design

The questionnaire form developed for this study consists of three parts. The first part of the questionnaire contains 17 statements which are related to characteristics of word-of-mouth senders. Five point Likert Scale (“5” Very Important, “1” None Important) was used by respondents in responding to WOM statements about physicians. To generate statements that consisted of the domain of opinions about advice contents three focus groups were conducted to 34 health consumers. In constructing the sample of focus groups, respondents were selected based on being represented the population in terms of demographic characteristics and, physician going and advising behaviour. In focus group studies, judgmental sampling is employed. In judgmental sampling, the decision of who will be included in the sample group is decided by the researchers. In addition to the focus groups interviews, statements used in this part were adapted from previous studies related to general and health dimension of WOM, (e.g., Anderson, 1998; Cooley and Madupu, 2009; Duhan et al., 1997; Richins, 1983) and were designed according to types and applications of advice strategies. Then, researchers generated a total 17 items. The second part of questionnaire included three single item measures relating to referring to encouraging going a physician, discouraging after negative WOM and satisfaction after WOM. The participants were also asked to indicate their level of agreement on these four items on five-point Likert scale with 5 being “strongly agree” and 1 being “strongly disagree”. The last part included demographic variables (gender, age, occupation, income etc.), and WOM receiving status.

Sample

The sample of this study is comprised of people living in the province of Eskisehir, Turkey. A self-administrated and researcher-aided questionnaire was distributed by sixteen trained researchers. The questionnaires were answered by respondents in the researchers’ presence. In lower educational groups and for groups of respondents who needed further explanations in filling out the questionnaires, researchers helped the respondents fill out the forms to a greater degree than they did for respondents with higher educational levels. Questionnaires were distributed and answered in homes, in business venues, and on streets. The researchers first approached potential respondents. Due to the importance and sensitivity of the issue, researchers first briefly explained the research purpose, and then gave the questionnaires to willing participants. In cases of refusal, the researchers thanked the individual and approached another candidate. The explanation and the filling out of the questionnaire took approximately 15 minutes. A total of 2000 questionnaires were distributed, 1680 of which were completely answered, resulting in a return rate of 84 percent.

FINDINGS AND RESULTS

Table 1 indicated characteristics of the respondents of the study. According to the results, %51,5 of the respondents were male and %48.5 of the respondents were female. % 34.1 of the respondents’ income was between 501-1000, followed by who had lower than 500 USD with %34.1. Most of the respondents’ ages were between 18-25 (36.4%), The other groups were 26-35 (%29.5) and 36-45 (16.7%). %25,5 of the participants were students, %13,3 of them were public officials, %11.2 of them housekeeper and %10 of them were workers.

Table 1: Characteristics of respondents

	<i>Frequency</i>	<i>Per cent</i>
<i>Gender</i>		
Male	865	51.5
Female	815	48.5
<i>Average Household Income Status (Monthly)</i>		
500 USD and <	558	33.2
501 – 1.000 USD	571	34.1
1.001 – 1.500 USD	345	20.5
1.501 – 2.000 USD	133	7.9
2.001 USD and >	73	4.3
<i>Age</i>		
18-25	612	36.4
26-35	496	29.5
36-45	280	16.7
46-55	189	11.3
56-65	89	5.3
66 and >	14	0.8
<i>Occupation</i>		
Public Official	223	13.3
Laborer	168	10.0
Retired	111	6.6
housekeeper	188	11.2
Manager	83	4.9
Tradesman	153	9.1
Self-employed	126	7.5
Student	428	25.5
Other	200	11.9
<i>n=1680</i>		

Dimensions of Health Based WOM

The scale related to word-of-mouth contains a total of seventeen items, thus principal component factor analysis was used to sort out and classify these variables as well as to convert them into main factors. To apply factor analysis on items related word of mouth on movies, it is necessary to test the Kaiser-Meyer Olkin (KMO) measure of sampling adequacy (Zhang et al., 2003). For the attitude variables, Kaiser-Meyer Olkin (KMO) was 0.902, indicating that the sample was adequate for factor analysis (Kaiser, 1974). The Bartlett Test for Sphericity (BTS) was 11267.904 ($p < .001$), indicating that the hypothesis variance and covariance matrix of variables as an identity matrix were rejected; therefore, factor analysis was appropriate. According to principal axis analysis, three factors (dimensions) had an Eigen value equal to or greater than 1.0 (Kaiser, 1960), explaining a total of 58.073 percent of the variance. The three dimensions were termed, respectively: “Tie Strength and Relationship”, “Health Knowledge and Experience”, and “Similarity and Preference Awareness”. Reliability coefficients of 0.70 or higher are considered adequate (Nunnally 1978). For all 17 items, the alpha value was 0.88. Cronbach’s alpha values of each dimension were above 0.78, indicating a satisfactory level of internal consistency among items in each construct.

Table 2: Factors and items on WOM related health

<i>Factors</i>	<i>Factor Loadings</i>			<i>Eigenvalues</i> (% of variance)	<i>Alpha</i> (α)
	(β)	<i>Mean</i>	<i>S.D.</i>		
<i>Factor 2: Tie Strength and Relationship (7 items)</i>					
Referring person is close to me	.583	3.86	1.06	5.991 (35.243)	.85
Referring person's level of trustworthiness	.586	3.47	1.17		
Referring person is my body	.765	3.52	1.10		
I know the referring person	.812	3.57	1.07		
I have previous referral experiences with this person	.805	3.30	1.11		
I have a social relations with referring person	.778	3.36	1.08		
Referring person is in my social network	.628	3.03	1.24		
<i>Factor 1: Health Knowledge and Experience (6 items)</i>					
Referring person is a reliable source on health	.494	4.19	0.95	2.420 (14.237)	.84
Referring person deals with health	.740	3.96	1.051		
Referring person is a public official in medical services	.758	3.99	1.14		
Referring person's body of knowledge level on health	.846	4.11	0.97		
Referring person's health experiences	.724	3.89	1.03		
Referring person closely follows developments in health sector	.761	3.96	0.99		
<i>Factor 3: Similarity and Preference Awareness (4 items)</i>					
Referring person knows well my attention	.808	3.86	1.03	1.461 (8.593)	.79
Referring person values my usual health preference	.821	3.80	1.02		
Referring person is similar with me	.576	2.99	1.21		
Referring person know my health situation	.763	3.84	1.07		
Cumulative % of variance				58.073	
Internal consistency of the scale (17 items)					.88
S.D. Standard Deviation; 1= Non-important 5= Very important					

Table 3 featured the results of correlation matrix, mean and standard deviation of the three dimensions. According to the results, it can be seen that relationship among three factors are statistically significant. I can also be seen that the mean for health knowledge and experience (mean: 4.02) was higher than the means of the other factors. In terms of mean, this factor was followed respectively by strength and relationship (mean: 3.64) and similarity and preference (mean: 2.44)

Table 3: Correlation matrix and descriptive (mean, std. deviation)

	1	2	3
Factor 1. Tie Strength and Relationship	1.000		
Factor 2. Health Knowledge and Experience	.347*	1.000	
Factor 3. Similarity and Preference Awareness	.454*	.441*	1.000
Mean	3.44	4.02	3.64
(S.D.)	(0.81)	(0.76)	(0.85)
* p < 0.01			

Relationships between WOM Dimension and Dependent Variables

In order to identify the relationships between the three dimensions in factor analysis and independent variables that comprise referring to encouraging to go a physician, satisfaction after positive WOM, and discouraging after negative WOM, a multiple regression analysis was utilized. The results of the regression models indicated that the regression models were statistically significant. As shown in Table 4, the results of the regression models indicated that the regression models were statistically significant ($F = 31.930$; $p < 0.01$ and $F = 9.736$; $p < 0.01$), and 5% of the overall encouraging and 1% of the overall discouraging to go a physician were explained by the three dimensions of health based WOM. The regression coefficients indicated that the dimensions of 'similarity and preference Awareness' ($\beta = 0.193$; $p < 0.01$) and tie strength and relationship ($\beta = 0.111$; $p < 0.01$) exerted the strongest influences on the overall encouraging behavior. In terms of the second regression model, the regression coefficients referred that the first dimension, termed tie strength and relationship ($\beta = 0.090$; $p < 0.01$)

and the third dimension, termed similarity and preference awareness ($\beta = 0.080$; $p < 0.01$) exerted the strongest influences on the overall discouraging behavior.

Table 4: Regression results on encouraging to go a physician and discouraging after negative WOM

Factors	Dependent variables					
	Encouraging to go a physician			Discouraging to go a physician		
	Std. β	t	p	Std. β	t	p
Tie Strength and Relationship	0.111	4.457	0.000*	0.090	3.558	0.000*
Health Knowledge and Experience	0.098	3.966	0.000*	0.066	2.607	0.009*
Similarity and Preference Awareness	0.193	7.789	0.000*	0.080	3.148	0.002*
Constant		264.699	0.000*		170.246	0.000*
	R ² =0.059 Adj. R ² =0.057 F= 31.930*			R ² =0.019 Adj. R ² =0.017 F= 9.736*		
* p < 0.01						

The third regression model considered satisfaction after advice phenomenon as the outcome variable, and the three dimensions of health based WOM as predictor variables. The regression model was found to be statistically significant ($F = 6.903$; $p < 0.01$) with 6% of overall satisfaction after WOM explained by the three dimensions of WOM. The results of regression analysis indicated that the dimensions of tie strength and relationship ($\beta = 0.174$; $p < 0.01$), similarity and preference awareness ($\beta = 0.128$; $p < 0.01$), and health knowledge and experience ($\beta = 0.069$; $p < 0.05$) indicated statistically significant relationships with the overall satisfaction as outcome of physician services (Table 5).

Table 5: Regression results on satisfaction after WOM

Factors	Dependent variables		
	Satisfaction after WOM		
	Std. β	t	p
Tie Strength and Relationship	0,174	7,013	0.000*
Health Knowledge and Experience	0,069	2,781	0.000*
Similarity and Preference Awareness	0,128	5,136	0.005*
Constant		158.754	0.000*
	R ² =0.071 Adj. R ² =0.061 F= 6.903*		
* p < 0.01			

CONCLUSION & IMPLICATIONS

The customers of today need new and reliable information sources due to lack of trust that they have for traditional commercials. As in many industries, sharing the information based on experience has significant importance for health services. WOM is considered as an important promotional tool because it is found trustable. In this study, it has been tried to display the characteristics of the people who are the subject to WOM. In addition to that, the relationship among WOM factors and, encouraging, discouraging ve satisfaction was another important aim of the study.

This study developed a 17-item survey instrument to evaluate dimension of WOM related to health or physicians' services. The results showed that dimension about health based WOM could be conceptualized and measured as a three-dimensional construct comprising 'tie strength and relationship', 'health knowledge and experience', and 'similarity and preference awareness'. These dimensions could be evaluated that advices or

experimental recommendations have an important effect on perceived physician services quality. The scale exhibited ideal internal consistency and met rigorous conceptual and empirical criteria for validity. The results of this study revealed that tie strength and relationship is the most important dimension of health related WOM followed by health knowledge and experience, and similarity and preference awareness. In compose of confidence, the level of tie with persons advising a product or services could have a significant effect because of the product experiences or involvement.

The results of multiple regression analysis indicated that the aspect of similarity and preference awareness seemed to exert the strongest influence on encouraging going a physician in comparison to other dimensions. The results also revealed that tie strength and relationship exerted the strongest influence overall discouraging behaviour. The third model of multiple regression revealed that all three dimensions related WOM were significantly correlated with overall satisfaction as outcome of service quality.

These results may be considered as a path for marketers of health services. Health services that the experience is real important are figured based on this kind of worm of mouth communication. What is thought for doctors and hospitals could me more important than any other industry. Main reason for this is that perceived risk in health services may result worse and make up for that negative result may be real difficult. So, it is not difficult to say that what people think can be influential on the others. Negative thoughts could increase the tendency for not benefiting related doctor or hospital. For this reason, patients will look some characteristics on the people who recommend a doctor or hospital to them. For example, having close relationships, knowledge level of the person and experience of the person could be important in evaluation of the information gathered by WOM.

Limitations could be considered in two ways: the scope of the study and research sample. First limitation is about general recommendation related to the doctors. WOM may result differently under specialization. For example, perceptions of a paediatrician and a gynaecologist would be different. Similarly, perceptions will different according to the importance of the sickness. Irretrievableness of health services can be thought as a one time service that patients will demand. Recommendations according to the diseases will be also different. For example, recommendations for a doctor who is going to operate the heart and recommendation for an examination will be evaluated differently by the patience. It has been pointed out that sampling was the other limitation. Future research on health related WOM could be extended to include wider demographic base, both geographically and international-wise, to further explore the extent to which the findings are generalisable. The respondents in the study were limited to those who live in a single Turkish city. Furthermore, the focus on Turkish people places the research in a particular cultural context. Consequently, the results may not adequately represent the total population in Turkey.

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RESEARCH ON DETERMINING EMPLOYEE SATISFACTION OF PHYSICIANS WHO WORK AT PRIMARY HEALTH SERVICES

Savaş Başar Kartal
Istanbul Health Directorate

Metin Ateş and İrfan Özcan,
Akdeniz University

Selma Söyük
İstanbul University,

ABSTRACT

With this study, it is intended to determine the levels of life satisfaction, work satisfaction, conflict between daily life and work life and factors that cause stress at work of the physicians working in the primary health care in Üsküdar district.

96 physicians participated in this research who are the members of the Üsküdar Health Group Presidency. Research datas were collected with the physician satisfaction survey. The Obtained datas from the survey were analyzed by statistical packages and tables and graphs were made by the computer by using MS Excel. Frequency, percentage and arithmetic means are used to describe the evaluation of the data. The relationship between variables has been identified with One-Way Anova analysis, the independent T-test, Pearson correlation analysis and Regression analysis

After the research, it was determined that physicians were satisfied with their life and work at the middle level. Moreover, it was determined that doctors were sometimes conflicted between daily life and working life and they sometimes saw adequacy of work and the relationship between people and often the difficulty of the treatment of patients as the stress factor. It was determined that Physician's work satisfaction and life satisfaction depended on each other by 35%, while the level of daily life and working life conflict increased, level of work and life satisfaction reduced, as the work life and daily life conflict level increases, work and life satisfaction reduce, by seeing the adequacy for the work and relationship between the people as a stress factor, reduces job satisfaction.

INTRODUCTION

Preventive health services, also known as primary health services, are the services for saving and developing the community health. In today's modern medical understanding, prevention and early diagnosis of diseases is more important than treatment. This is only possible with primary health services. Cheaper than the cost of treatment services that provide preventive health services can not be sufficient; society's health deteriorated and disease rates are increasing. Labor costs and treatment of disease losses in the country's economy are causing a heavy load. This vicious cycle can be broken as a priority of preventive health services needs to be strengthened.

Effective and efficient delivery of health services in the contribution of health personnel is very important. However, in our country, the number of medical personnel is insufficient. Especially in primary health care practitioners and the number of employees, our country is very small compared to other countries. General practitioners for specialist doctors in developed countries, 2/1, while in our country, this ratio is close to 1 (Özdemir, 2003). The practitioners are few in preventive health care. Their job dissatisfaction develops because of lack of public investment and they also tend to be specialised.

Job satisfaction which is one of the necessities for Employees success, happiness and productivity is an emotional reaction after the evaluation of the business and work area. There are many factors that affect job satisfaction positively and negatively. These can be identified as the factors related with individuals and with groups. Employees' job satisfaction will affect the individual factors, age, professional experience, education level, marital status, gender and personality traits as, work-related factors, physical working conditions, wages, promotion, conditions, work environment, communication and safety as grouped. These positive or negative

direction depending on the affected employee's job satisfaction level of productivity affects life satisfaction. Therefore, the factors that cause workers' high level of job satisfaction and job dissatisfaction should be identified and removed. This research is also done to identify the level of job satisfaction, life satisfaction, business and daily life conflict level and the factors that cause stress in business area of the doctors in our country who work in primary care services and who have effects on primary health care tasks.

JOB SATISFACTION

Concept that expresses personal, subjective and emotional satisfaction, is not observed directly by another person, only felt by the individual identifiable and can be expressed within the delight, or inner peace (Eroğlu,1984). Staff throughout his working life, employment and business environment are gaining many experiences. Overall job satisfaction is a result of this attitude and in good condition from the employee's physical and mental perspective, various definitions of job satisfaction have been made by many people. Job satisfaction linked by many Bullock'e isle are not desirable and the whole experience and an attitude as a result balancing is taken into consideration (Şimşek,1995). Vroom sees the concept of job satisfaction as a measure of employees' perceptions, feelings and behavior within different dimensions. (Şimşek,1995). Job satisfaction is defined in various ways above and it is briefly loving work, work commitment, adapt yourself on work. Shortly we can say people who work are satisfied by their work.

There are three important dimensions of job satisfaction (Luthans,1989)

- a) Job satisfaction, the emotional response is a business case. Thus can not be seen, just is expressed.
- b) Job satisfaction is usually the extent to which earning expectations are or how much are the exceptions exceeded
- c) Job satisfaction, represents a variety of attitudes interrelated. For example, the work itself, payment, promotion opportunities, methods, style, colleagues, etc...

Factors Affecting Job Satisfaction

Job satisfaction is not a static phenomenon or stable concept. Therefore, with individual or other factors, job satisfaction or dissatisfaction can appear.(Lam, 1995) . Thus, factors that could be considered depending on individual and job or work environment can be classified as factors.

a) Individual Factors Affecting the Job Satisfaction

Affects of a person's satisfaction level and size of individual major elements can be summarized as follows:

- Age and Service Time:
- Gender
- Education
- Marital Status

b) Affecting Job Satisfaction and Work-Related Factors of Business Environment

The general view of the business itself, the social and economic interests and the work atmosphere and the conditions of the business area are the main effective factors of the job satisfaction of the employee. . These factors are not individual, are social, not judgmental can be analyzed, measured, can be compared to other business. (Ozgen et al., 2002) and the general characteristics of these factors are as follows:

1. Work itself
2. Fees and Awards System
3. Progress, or the promotion of Meat Facilities
4. Human Relations in Business
5. Working Conditions
6. Safety

The Benefits of Job Satisfaction

Workers who are well motivated have a great job satisfaction and will have higher morale in the workplace. As a result, they will be very helpful to the business. A high employee morale, makes these positive effects on employees and working area(Şenatalar, 1978).

- A highly moralled person does his job with full of energy and happiness.
- They will be highly willing to work.
- The employees obey the orders work rules and regulations willingly.
- The employees will want cooperation according to the workplace goals.
- The employees feel committed to the workplace and executives.
- High morale has positive effects on labor transfer, and absence. Therefore absenteeism reduces. Accordingly the cost of folding is also reduced.

The problems arising from the dissatisfaction

With low job satisfaction, but have to work with a variety of reasons, the employees begin to put in negative behavior in the organisation.. He often complains, he will always have negative comments about the organization within and outside the organization, and he also tries to disrupt morale of the employees. As a result they slow down work, and will be absent from work at last they leave work.

The physicians' Job Satisfaction in Primary Health care Services in Turkey

We have mentioned before that job satisfaction is the satisfaction in work area. If we look at the job satisfaction of the physicians who work in the primary health care units in Turkey, we must first check the work conditions, salary, job security etc.. When we examine their working situations and compare them with other jobs, we see that they work long hours, they are on duty for a long time. We can also see that their job has a lot of risks, it is tiring and they work for a long time.

They examine a large number of patient in primary care units this makes working conditions more severe. According to the OECD 2008 report one thousand people have 1.6 physicians, but in OECD countries as a thousand people will have 3.1 physicians (İRDES, 2009). Although doctors in Turkey is low, the ratio of seeing the doctor is 4.6 per person. In 2006, in the OECD countries, the average is 6.5 per person and it is around 70% . In 2007 the consult rate per person in Turkey is increased to 5.4 and is reached to OECD average of 80% of the previous year (Health Ministry,2009). Physicians per application rate is higher, at one point in Turkey. Therefore it should be solved by increasing the physicians' low destiny. However, in this case, this situation increases the physicians workload, and this causes them to be exhausted. Previous researches showed that GPs level of job satisfaction in their working conditions are of intermediate levels. However, these surveys are before the year 2002. The attending number to Primary health services increased rapidly after 2004 and the average is above the OECD average in 2005. In Aslan and his friends' research in (2007) it was seen that the GPs couldn't have their expectations from their profession and they experienced professional uncertainty and conflicts in their job and they couldn't have feedbacks from their professional effort .Also they could be easily affected by the irregular organisational structure.(ASlanan et al., 1997). Ergin showed that the Specialist Physicians, Physicians general practitioners, dentists, pharmacists, nurses, health technicians and midwives for the Maslach Burnout Inventory norms Turkey has interests in the operation, general practitioners and nurses' emotional exhaustion and insensitive scores of other professional groups are higher (Ergin, 1993).

MATERIALS AND METHODS

The aim of this study is to analyse the physicians' in Istanbul's Uskudar Health Group Presidency working life satisfaction, job satisfaction, the level of the conflict of work and daily life, and to find the level of the factors that cause stresses at work and it is cross-sectional descriptive type of investigation.

The research is done for the physicians who work in the primary health care units and all the health groups in Lucknow in Ontario. The entire universe has been included in the survey, sampling was done. The creator of the universe has attended 102 96 research physician. Research during the absence of physician 3 physicians and 3 in the Trustees Reports that could not be included in the research.

Questionnaire techniques were used as a data collection method. Questionnaire was created by different researchers. The questionnaire consists of six chapters and in the first part there are questions about the physician sociodemographic and professional characteristics, the second part is about the doctors' life satisfaction, in the third section, there are questions about the job satisfaction, in the fourth chapter there are questions about daily life satisfaction, in the fifth chapter there are questions about the positions of business life conflict situations and in the sixth chapter there are questions about the stress source level that they see work-related stress sources. There are questions about the level of resources. The survey data were collected between January-March 2008. The reliability analysis was done and the result of the answers are found as Alpha response was 0.75.

Survey data obtained through computer analysis using the statistical package program was converted into Excel tables and graphs. Descriptive data for evaluating the frequency, percentage and arithmetic mean is used. To determine the relationship between variables purposes; One-Way ANOVA analysis, Independent sample t-test, Pearson made Korelayon Analysis and Regression Analysis.

FINDINGS

21% of the physicians surveyed "26-31" age group, 21% of the "45 and over" age group. 58% of women, while 44% were male. When we look in terms of marital status, the vast majority of physicians (76%) were married and 7% were divorced or living separately from his wife (Table 1).

Table 1: Research on Socio-Demographic Characteristics of Attending Physician

Socio-Demographic Characteristics		Number(n)	Percentage(%)
Year	26-31 Years	20	20,83
	32-37 Years	23	23,96
	38-43 Years	33	34,38
	44-49 Years	14	14,58
	50 + Years	6	6,25
	TOTAL	96	100,00
Gender	Famele	54	56,25
	Male	42	43,75
	TOTAL	96	100,00
Marital Status	Married	73	76,04
	Single	16	16,67
	Separate Alive / Divorced	7	7,29
	Widowed	0	0,00
	TOTAL	96	100,00
Owner Status Children Have	Have Child	64	67,37
	No Child	31	32,63
	TOTAL	95	100,00

If we look at their having children 67% have children, %33 have no children. In terms of professional experience, 24% of physicians have 0-6 years experience, while 24% between 7-13 and 39% between 14-20 years of experience. 2% of the physicians have expertise. 80% of the Physicians work 45-60 hours per week, while %6 work more than 60 hours and 14% work less than 45.

Table 2: Physicians' Life Satisfaction Status Who Attended To The Survey

Experrissions		Perfect - 5	Extremely satisfied -4	Satisfied-3	Not bad-2	Bad-1	Mean	St. Dev.
How do you evaluate your business life	(n)	2	2	24	52	14	2,21	0,8
	(%)	2,13	2,13	25,53	55,32	14,89		
How do you evaluate your family life	(n)	17	33	36	10	0	3,59	0,9
	(%)	17,71	34,38	37,50	10,42	0		
How do you evaluate your daily living conditions	n)	1	6	47	33	8	2,57	0,78
	(%)	1,05	6,32	49,47	34,74	8,42		
How do you evaluate your social relations	(n)	10	14	49	16	5	3,09	0,98
	(%)	10,64	14,89	52,13	17,02	5,32		

How do you evaluate your activities that you have done in order to evaluate your leisure times?	(n)	10	14	49	16	5	2,43	1,07
	(%)	10,64	14,89	52,13	17,02	5,32		
In general How would you rate, your financial situation?	(n)	1	3	33	41	18	2,25	0,83
	(%)	1,04	3,13	34,38	42,71	18,75		
In general How do you evaluate your physical health?	(n)	3	7	41	36	9	2,57	0,88
	(%)	3,13	7,29	42,71	37,5	9,38		
Overall, how would you assess your mental health?	(n)	7	12	53	30	12	2,71	1,08
	(%)	7,29	12,50	36,46	31,25	12,5		
Overall, how would you assess your mental health?	(n)	2	10	45	36	3	2,71	0,78
	(%)	2,08	10,42	46,88	37,5	3,13		
GENERAL AVERAGE							2,69	0,59

The participating physicians' life satisfaction with the overall average is of 2.69 is close to moderate. Highest satisfaction is with the 3.59 "family life satisfaction" Doctors "work lives" and "financial status" is not bad and is considered below the average

Table 3: The Position Of Job Satisfaction Of The Attending Physicians

Experiences		Highly Satisfied-5	Extremely Satisfied-4	Moderate Satisfied-3	Not bad-2	Never Satisfied-1	Mean	St. Dev.
The relationships with the other doctors	(n)	2	39	49	5	1	3,38	0,67
	(%)	2,08	40,63	51,04	5,21	1,04		
Your Relationship with other professional groups in your institution	(n)	4	37	46	7	0	3,40	0,69
	(%)	4,26	39,36	48,94	7,45	0		
The contribution of medical training you had to the practical life its drive to work harder in your business.	(n)	2	25	47	15	3	3,09	0,81
	(%)	2,17	27,17	51,09	16,3	3,26		
The availability of manpower when you need during your job	(n)	2	12	50	24	7	2,77	0,84
	(%)	2,11	12,63	52,63	25,26	7,37		
The diversity of patients treated (age, gender, and the problems they have with the disease), and their contribution you medal information.	(n)	4	26	47	11	4	3,16	0,86
	(%)	4,35	28,26	51,09	11,96	4,35		
The adequacy of the numbers of patients you have treated.	(n)	3	27	33	20	7	2,99	0,99
	(%)	3,33	30,00	36,67	22,22	7,78		
The Professional happiness you have felt while you tread and diagnose your patients.	(n)	6	32	37	10	6	3,24	0,97
	(%)	6,59	35,16	40,66	10,99	6,59		

Fees you receive	(n)	1	2	29	27	37	1,99	0,93
	(%)	1,04	2,08	30,21	28,13	38,54		
The possibilities of your promotion in your career in your Institutions or the support for you to be successful in the future	(n)	1	3	23	34	34	1,98	0,91
	(%)	1,05	3,16	24,21	35,79	35,79		
Your Possibility to follow the latest developments in medicine	(n)	1	3	27	40	25	2,11	0,87
	(%)	1,04	3,13	28,13	41,67	26,04		
Your talent to diagnose and treat your patients when needed	(n)	3	16	58	15	2	3,03	0,74
	(%)	3,19	17,02	61,70	15,96	2,13		
Your position in your organisation when making decisions about management and work environment.	(n)	1	23	48	14	10	2,91	0,92
	(%)	1,0423	23,96	50,00	14,58	10,42		
The prestige and status your medical career provides	(n)	5	8	53	22	8	2,79	0,91
	(%)	5,21	8,33	55,21	22,92	8,3		
GENERAL AVERAGE							2,85	0,49

Related to job satisfaction, Table 4 shows the findings when we examine the life satisfaction we see that majority of physicians (38%) stated that they are not happy about their salary. The majority of physicians have indicated that they are not happy about the support of promotion and raise possibilities in the institutions. Two expressions mean the satisfaction is the lowest average between 1.99 and 1.98, and it is the lowest degree in answers. The highest average is about their satisfaction with the communication with other physicians and colleagues.

The comparison of the physicians's sociodemographic and Professional features and the conditions of their satisfaction in first Health Cares in Uskudar district

After One-Way ANOVA analysis only with these statements: "How would you evaluate your work life" are "your ability to diagnose and treat your patients when needed" it was seen that there was a great difference between ages. When the ages increase the satisfaction rate increases. Between the 44-49 age groups have the highest satisfaction rate after 50 age group, as expected, average rate decreased. When we look at the Satisfaction with the status of the physicians and the gender we see that women have higher satisfaction rate. (t: 2.19 p: 0.031).

In our survey, when we look at one-way anova analysis we see that a 28-33 year –experienced physicians have higher work life satisfaction than other groups and Business Life and daily life conflicts are lower than the others. As a result of analysis, no difference was seen in the answers given by the physicians about professional experience years and reasons of the stress factors.

After T-test results, only four significant difference was found as shown in table 9 about the answers given to the questions by the GP practitioners and specialist physicians. Specialist Physicians stated that they are happy with their social relationships and lives, while too; practitioner Physicians have expressed that their satisfaction is at the middle level. However, in order to measure their life satisfaction, questions were asked and the answers is not bad with 2.00 as it is 2.25, for GPs and was seen that GPs are happier, but from statistical view it is not so significantly different ($p > 0.05$).

While doing their job, Specialist Physicians' satisfaction about having man power when needed is 1.50 which can be regarded as bad. The GP s working in the same atmosphere is 2.77 which can be regarded as middle.

Here we can conclude that Specialist Physicians wishes and GP s wishes are different. According to the marital status of the physicians when we look at the answers we can see two different dependant variables.. "How would you rate your family life," is expressed the highest average of 3.74 as highly satisfied by the married physicians while living separately from his wife or divorced are moderatel satisfied as 2.86. ($p = 0.010$) Physicians who are married have more regular life, as they are married than the unmarried or divorced or the ones who left their family as we expected Evaluations the results support our literature. In addition, in our

research it was seen that married ones and the ones living separately from his wife and the divorced physicians experience a dense conflict between daily life and business life ($p = 0.006$). It is very normal for the married physicians to live a conflict between work and daily life, as they have more Responsibilities than the single physicians.

The Physicians who Have children variables were compared with T-test, the physicians who have a child are happier with their financial situation in general with their lives than the physicians who haven't any children. After One-Way ANOVA analysis, working for 60-90 hours per week makes the Physicians are satisfied with their education with the contribution to practical life and they are happier than the ones who work 45-60 hours ($p = 0.005$).

Employees' who work less than 45 hours per week and who work 60-90 hours per week are satisfied with their incomes than the ones who work 45-60 hours per week ($p = 0.036$).

After Pearson correlation analysis when Physicians' working 'weekly' and the position of satisfying the patients' demands and needs factors were analysed, it was seen that as the working hours increases seeing the patients' demands and needs as stress factor decreases ($r = -0.240$, $p = 0.022$). In addition, as physicians' weekly work hours increase, seeing the treatment difficulties of patients as stress factor decreases. $r = -0.263$, $p = 0.012$.

Table 4: The Position Of The Relations Between The 'Life Satisfaction Average "Job Satisfaction Average" Work Life And Everyday Life Conflict Average "Employment Eligibility And Contacts Between Relationship Stress Factor As A Guest Vision" And "Patients' Treatment Challenges Of Stress Factors As Visually Average" Of The Practitioners Who Joined Our Research.

Pearson Correlation Matrix		L.S. Mean	J. S. Mean	E.L.C. – B.L.	S.F.	S.F.- T. P.
L.S. average	r	1,000	0,590	-0,289	-0,178	-0,077
	p	0	0,000	0,007	0,089	0,481
J. S. average	r	0,590	1,000	-0,229	-0,283	-0,114
	p	0,000	0	0,047	0,010	0,315
E.L.C. – B.L.	r	-0,289	-0,229	1,000	0,284	0,268
	p	0,007	0,047	0	0,007	0,013
S.F.	r	-0,178	-0,283	0,284	1,000	0,231
	p	0,089	0,010	0,007	0	0,028
S.F.- T. P.	r	-0,077	-0,114	0,268	0,231	1,000
	p	0,481	0,315	0,013	0,028	0

L.S. Mean: The average of the life satisfaction of the physicians who joined in research

J. S. Mean: The average of job satisfaction of the physicians' who joined our survey.

E.L.C. – B.L.: aAverage of the conflict between Everyday Life and t Business Life of the physicians who joined our survey

S.F. The average of seeing the efficiency to job and Relations Between people as Stress factor by the practitioners who joined our survey

S.F.- T. P.: The average of seeing the' treatment of the patients as Stress

A positive strong relation was found between the life satisfaction and job satisfaction of the practitioners who joined our survey. ($r = 0.590$, $p = 0.000$). Moreover, regression analysis of job satisfaction and its effect on life satisfaction was found at a rate of 34.8 % ($R^2 = 0.348$, $p = 0.0001$).

There was a negative relationship between Life satisfaction and "with the business and daily life conflict" ($r = -0.289$, $p = 0.007$). We can say that Business and daily life in the conflict here is higher and average life satisfaction is low. Same situation is valid for "job satisfaction". There was a meaningful negative relationship was significant for the average of "Job satisfaction" and with average "conflict between work and everyday life" ($r = -0.229$, $p = 0.047$).

In addition, a meaningful positive relationship was found between the average of "conflict of business and daily life" and the average between the factors that cause stress in working life of physicians. As the

conflict between the job and daily life increases eligibility to work and interpersonal relationships as visual stress factors "average and" difficulty in the treatment of patients as visual stress factors "average is also increasing.

A negative relation was found between The average of seeing 'eligibility to work and interpersonal relationship' as stress factors and the average of "job satisfaction" ($r=-0,283$ $p=0,01$) As the average of seeing the efficiency to work and interpersonal relation as a stress factor increases, job satisfaction decreases and the doctors who see the efficiency to work and interpersonal relationship as stress factors tend to see treatment difficulties as stress factors. Because when a correlation analysis is done between these two variants a positive relation was found between them. ($r = 0231$ $p = 0.028$).

DISCUSSION AND CONCLUSION

When you evaluate the County Health Group, working in Üsküdar Presidency 96 physicians were participated in research. 98% of surveyed physicians are general practitioners and only 2% are of specialist physicians. Physicians' professional experience in an average is 13 years (standard deviation 7) and also 1-year and also there are 31 years of experienced Physicians available. The ages of the physicians surveyed are distributed between 26-58 and the average age is 38' (standard deviation 7) . When we look at gender in terms of doctors 44% are males and 58% are women. 74 %are married while 7% were divorced or living separately from his wife. 67% of physicians have children which is suitable for this situation. . When we look at the results of working conditions %80 work 45-60 hours per week ,%6 work more than 6 hours and 14%work less than 45 hours per week

After the questionnaire applied to the doctors, it was seen that physicians' life satisfaction average is found as 2.69. We can accept physicians' life satisfaction as moderate. Physicians are highly satisfied with their family lives associated with life satisfaction while expressions of social relations they are moderately satisfied. But they are not happy with their incomes and job life.

The average of job satisfaction which affects physicians' life satisfaction is 2.85. When we look at the overall average of physicians' satisfaction about their jobs which they have done, we see that they were moderately satisfied. However, they aren't also satisfied with their wages. Life satisfaction has the same results. Most of the doctors stated that they are not satisfied with the financial condition. One of the important factors affecting job satisfaction again is that they are not satisfied with the promotion possibilities to Physicians. They think that they aren't supported enough to be successful and to improve themselves.

The conflict average between Daily life and work life is 2.84. We see that the doctors sometimes have conflicts between daily and work lives. In addition, physicians imply that they miss the social activities because of intensive works. When we look at the stress factors the doctors have at work, we see that they can not to follow the developments in the medical profession" and this causes stress. The developments in medicine and technology requires physicians to develop themselves continuously. To be efficient to their jobs doctors should continuously update and improve their knowledge.

When we analyse Research results according to the physicians' sociodemographic and professional characteristics, we see a "J" shaped curve relation between the doctors work status and age 26-31 age group has high average of work job evaluation whereas the average of the next age group decreased but started to rise again after a certain age. Lee and Wilbur 1707 support this result by doing researches on public employees. When we look at the Physicians' Professional Experience, we see that 28-33 years of professional experienced physicians have high satisfaction with their life and work. Of course the conflict between work life and daily life is less according to the other groups.

When we compare the GPs and specialist physicians answers the specialist physicians aren't satisfied with their wages as the GPs. Life satisfaction average of specialist physicians is (4,5) and it is higher than that of GPs. The average of general practitioners is (3,05) In addition, the specialist doctors are more satisfied with their lives in general and social relations. Besides age, gender, years of professional experience and marital status also affect the conflict position stress factors. The physicians who are married have high family life satisfaction, while those who divorced or living separately from his wife have lower family life satisfaction. . The Single practitioners' family life satisfaction level is between the two ($p = 0.01$). The married ones have Higher average life satisfaction but the conflict of work and daily life is higher compared with single ones. ($p = 0.006$). We can think that married ones have more responsibilities than the single ones. The ones who have children in general are more satisfied with their lives and their financial situation once again than the ones who have no children.

Research results; life satisfaction and job satisfaction are closely related ($r = 0540$ $p = 0.000$) with the regression analysis of life satisfaction and job satisfaction by 35% and was found to be connected to each other. As Business Life and daily life conflict increase, the average of life satisfaction and job satisfaction is negatively decreased and stress-causing factors have been found to increase. Also as the average of seeing conflict between the Competence of work and interpersonal relationships as the stress factors increase, it decreases the job satisfaction and it increases seeing the treatment of patients as a difficulty as stress factor

RECOMMENDATIONS

In order to see the doctors' satisfaction level who work in Üsküdar County Health Group Presidency and to see the factors that affect them and to increase their job and life satisfaction which isn't very high and in order to abolish the factors which cause their dissatisfaction, this research is done.

One of the factors that affects the dissatisfaction of the doctors highly is the income. It is clear that the performance system which is put forward for the Improvement in fees hasn't satisfied the doctors. Therefore, improvement in the salaries of doctors should be done.

Furthermore the Physicians who joined the research think that their Institutions do not support them enough to improve and to be successful and this causes dissatisfaction in their job. Therefore, for primary care physicians career paths should be identified, those who succeed in business should be fairly rewarded and all the working physicians should be encouraged for this.

The other factor that affects job satisfaction in a negative way which must be abolished is having stress about suitability for the job. In order to stop this is that the doctors should always follow the publications and they should be encouraged to join the congress, seminars and panels and by inservice trainings they should update their knowledge and improve it.

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TOURISM AND HOSPITALITY MANAGEMENT

THE IMPACTS OF GLOBALIZATION ON SERVICE QUALITY AND INNOVATION OF FIRMS IN TOURISM SECTOR IN ANTALYA

Oya ERDİL
Gebze Institute of Technology, TURKEY

Adnan KALKAN
Mehmet Akif Ersoy University, TURKEY

ABSTRACT

Globalization is a complex phenomenon, penetrating into all spheres of social life. Supporters see it as a high-speed elevator to universal peace and prosperity, while sceptics charge it with impoverishing the world's poor, enriching the rich and devastating the environment. As a rule, such statements are often based more on personal attitudes than on objective evidence. The empirical evidence would allow to form a much more objective attitude towards the notion of globalization and its impact on various aspects of social life.

With globalization, the free circulation of technology, knowledge, capital and people increases. Because of this situation, firms can get technology easily and cheaply. Therefore, service quality and innovativeness increases in firms which use this technology. According to this situation, we expect that globalization will effect service quality and innovativeness. If so, to what extent and how? This study explores the relationships between globalization, service quality and innovativeness in the hotel industry in Antalya.

One of the impacts of globalization has been the growth in tourism because tourism is supported by free market and open borders. Different culture and lifestyles of foreign tourists can differentiate the type of products and services in tourism sector.

Antalya, which is located on the Mediterranean coast of Turkey, is a well known city worldwide as the "tourism capital" of Turkey. Globalization doesn't bypass Antalya either but the impacts of globalization are quite questionable. This leads to the scientific problem of what the impacts of globalization on service quality and innovation of firms in tourism sector in Antalya are.

Thus, the main aim of this paper is to analyse the impacts of globalization on service quality and innovation and the relationships between these variables on tourism sector in Antalya.

In this study, the relationships between innovation and service quality and globalization have been investigated and measured. With regard to this issue, various hypotheses have been developed and the accuracy of these hypotheses was investigated. The correlation type relationships between variables have been investigated.

The findings obtained from this research do not support the Hypothesis 1 (H1) and Hypothesis 2 (H2) claiming that globalization has a positive effect on innovation and service quality of hotels in tourism sector. Nevertheless, these findings support the Hypothesis 3 (H3) claiming that innovation has a positive effect on service quality of hotels in tourism sector.

As a result, the findings state that there is no correlation between globalization and, innovation and service quality. These results may be due to the relatively small amount of hotel samples and relatively low total variance explained. Therefore, further similar research of a larger sample is necessary to confirm the hypotheses of this study.

Key Words: Globalization, Innovation, Service Quality.

INTRODUCTION

Because of the technological and socioeconomic developments over the last 20 years, the world's needs and preferences have become more homogenized and such commonality of preferences is leading to the standardization of products and services. In addition, firms must capture global-scale economies to remain competitive. At the same time, technological innovations have also brought changes in process and allowed firms to develop products and services on a global basis. Firms started attempting to achieve globalization by rationalizing their operations.

In recent years, tourism and its associated economic repercussions have taken place within a wider context of globalization of the world economy. Macroeconomic policymakers have been concerned to decrease barriers which impede international flows of goods, services and financial capital and to ensure flexibility of exchange rates, interest rates and wages, with the aim of inducing markets to operate more efficiently (Sugiyarto, et al., 2003: 683). With the increasing trend towards globalization, the growth of tourism sector may help Turkey to maintain its competitive advantages.

With globalization, the circulation of people between the countries increased. Many people travel to other countries and stay there. For this reason, the amount and variety of demands of customers increased in almost all countries. In addition to this, interaction happens between cultures. Firms reply to these demands by increasing their technology level (Reddy, 1997:1821).

Despite the current world economic situation, it is widely accepted that travel and tourism will continue to grow in a globalized economy (Jolly & Dimanche, 2009: 579). With globalization, firms can get technology easily and cheaply due to free circulation of technology (Gomory & Baumol, 2004: 426-428). These advancements arise the question whether globalization affects service quality and innovativeness in the hotel industry? If so, to what extent and how? This study explores the links between globalization, service quality and innovativeness in the hotel industry in Antalya.

LITERATURE REVIEW

Globalization

Globalization, as one of today's most controversial issues, can be defined as the increasing integration of economies, societies and civilizations. It includes, and goes beyond, the more simple internationalization defined as relations among and within nations. Globalization is a restructuring process that works across units and affects all aspects of human life: from capital flows, through political collaboration, to the flow of ideas (Hjalager, 2006: 437).

Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence. The real driving force behind globalization is the technological development in transportation and, information processing and communication (Schulze & Ursprung, 1999: 302).

Contemporary globalization is defined as an intensification of cross-national cultural, economic, political, social and technological interactions that lead to the establishment of transnational structures and the global integration of cultural, economic, environmental, political and social processes on global, supranational, national, regional and local levels (Martens & Zywiets, 2006, 332).

The Measurement of Globalization

The most common way of measuring the degree of internationalization is to calculate the ratio of foreign sales to total sales (Fisch, J. H. and Oesterle, M. J., 2003, pp. 4). The other is the share of foreign assets in total assets.

Chen et al. (1997) use the ratio of foreign pre-tax income to total pre-tax income. Other possible measures are the number of countries with foreign operations and the shares of foreign employees, profits, value added, or shareholders (Fisch, J. H. and Oesterle, M. J., 2003, pp. 4).

Sullivan (1994) chooses five out of nine possible variables to measure internationalization. These are the foreign sales as a percentage of total sales, the overseas subsidiaries as a percentage of total subsidiaries, the foreign

assets as a percentage of total assets, the psychic (cultural) dispersion of international operations, and top managers' international experience (Fisch, J. H. and Oesterle, M. J., 2003, pp. 5).

Another measure, the UNCTAD (1995) transnationality index, which weights the percentages of foreign assets, sales, and employees, suffers from corresponding deficiencies (Fisch, J. H. and Oesterle, M. J., 2003, pp. 5).

We have determined five possible variables to measure globalization. These five measures are customers coming from foreign countries, benefits from new cultural values of foreign customers, total volume of sales to foreign customers, the amount of foreign exchange sales, and the rate of foreign sales to total sales.

The Effects of Globalization

Globalization suggests the intensification, or the growing magnitude, of interconnectedness and flows of trade, investment, finance, migration, culture, etc. The growing extensity and intensity of global interconnectedness can be linked to the acceleration of global interactions and processes, as the evolution of the world-wide transport and communication systems increases the dissemination of ideas, goods, information, capital, and people (Macerinskas & Pipinyte, 2003: 72).

Globalization may affect the enhancement of innovation capabilities in the firms. Other effects on the innovation capabilities of the firms include the diffusion of knowledge related to patents and other intellectual property rights. With the transnational corporations technology investments in the firms are increasing. The most important reason for locating international corporate technology activities in tourism firms has trained their personnel. Dispersed technology activities of firms require excellent communication and other infrastructural facilities. The countries seeking to attract technology investments should establish such infrastructural facilities on a priority basis (Sundbo, et al., 2007: 88).

Globalization has led to a strong growth in trade and consequently provided new opportunities for service firms in the tourism sector. At the same time, globalization has also resulted in a strengthening of global competition and has had a tremendous impact on the way companies nowadays operate. The changing structure of global markets and consequently demands of consumers have forced hotels to rethink their business processes to satisfy tourists' needs better (Yang, et al., 2009: 6).

The Relationship Between Globalization and Tourism

One of the impacts of globalization has been the growth in tourism and mobility of capital. The term "globalization" may be defined in terms of the mobility of goods, factors and/or consumers. The mobility of goods has always been the hallmark of trade theory. However, in recent years there has been increasing mobility of factors, in particular capital and consumers. While the former represents factor mobility, the latter is defined as tourism. One type of the mobilities of people is a short-term tourism/business travel. Consumers travel from one country to another as tourists to enjoy and consume the private and public goods that the other country offers. Tourism has been growing at an extraordinarily high rate (Chao, et al., 2004: 141) because tourism is underpinned by free market and open borders.

Tourism and globalization can be connected in many different ways. In general terms, both have to do with the movement of people, the movement of ideas and the movement of capital across borderlines (Reiser, 2003: 310). Different culture and lifestyles of foreign tourists can differentiate the mode of products and services in tourism sector.

Table-1. Tourism and Globalization: Examples of Connections (Reiser, 2003: 311).

Tourism	Globalisation
Movement of people (e.g. tourists, workers in tourism industry)	Movement of people (e.g. immigrants and their cultures)
Movement of ideas (e.g. new cultural values with tourists; ways of doing business in tourism industry)	Movement of ideas (e.g. new technologies across the globe)
Movement of capital (e.g. tourism industry investment, foreign exchange earnings through tourism)	Movement of capital (e.g. instant movement of capital across borderlines)
Needs new technology to expand (e.g. wide-bodied jets)	Spread of new technology around the globe
Started at the latest in ancient Greece (limited to particular groups of society)	Started with the first movement of humans (e.g. from Africa to Indonesia in 17,000 years using some of their original tools, maybe domesticated animals etc.)
Enormous growth in the last 100 years	Time-space-compression, in particular in the last 30 years
Towards travelling as a right for everyone, Development of a world tourism culture?	World tourism culture?
Tourism needs local culture, or at least the image of it (e.g. differentiation between destinations)	Towards a world culture

Tourism

Today tourism is often recognised as the world's largest industry, or as one of the fastest growing sectors of the global economy. Tourism is closely connected to leaving a place of residence for a different place; it involves the movement of people and their ideas (eg. their culture) across (social) borderlines (Reiser, 2003: 306-309).

Chadwick found that tourism or travel can be described as three concepts: the movement of people; a sector of the economy or industry; or a broad system of the interacting relationship of people and their needs to travel outside their communities, and the services that attempt to respond to these needs by supplying products (Reiser, 2003: 310).

Overall, it can be said that a definition of tourism evolves around one or more of the following elements: Tourism as the movement of people; tourism as a sector of the economy; tourism as a broad system of the interacting relationship of people and their need to travel, therefore involving a time dimension, a space dimension (people moving) and the exclusion/inclusion of people. These elements provide the basis for the connection of tourism and globalisation, while, for example, technological innovations in transport, communication and information spreading around the world present the link between globalisation and tourism (Reiser, 2003: 310).

Turkey has several unique opportunities for different types of tourism compiled under the category of alternative tourism, which include, in addition to coastal tourism, health and thermal tourism, winter sports, mountain climbing and layout tourism, adventure trips, plateau tourism and ecotourism, conference and expo tourism, cruise ship and yacht tourism, golf tourism and etc. The number of foreign visitors and tourism receipts between 2006 and 2009 are given in Table-2 (Tourism Strategy of Turkey-2023, 2007: 1) (<http://www.kultur.gov.tr/>).

Table-2. Distribution of Tourism Receipts of Foreign Visitor and Turkish Citizens Residing in Abroad by Years (<http://www.kultur.gov.tr/>) (Republic of Turkey: Ministry of Culture and Tourism Statistics).

Years	TOTAL			FOREIGNER			% by Number
	Tourism Receipt (\$1,000)	Number of Visitors	Average Expenditure (\$)	Tourism Receipt (\$1,000)	Number of Foreigner	Average Expenditure (\$)	
2006	16,850,947	23,148,669	728	12,556,829	19,275,948	651	83.3
2007	18,487,008	27,214,988	679	13,989,952	23,017,081	608	84.6
2008	21,950,807	30,979,979	709	16,801,618	26,431,124	636	85.3
2009	21,249,337	32,006,149	664	15,853,077	7,347,977	580	85.5

Tourism in Antalya

Antalya, which is located on the gulf of Antalya on the Mediterranean coast of Turkey, is a well known city as the “tourism capital” of Turkey and has been selected as the best town of the Mediterranean region in 2009. The population of the city is 603,190 (2000 census) but reaches up to 2 million in summers at the height of the tourist season.

In Antalya which is among the top 5 cities in terms of foreign population in Turkey, 6 thousand 343 - foreigners inhabit according to the last census (2007 census) (<http://www.olay07.com/index.php?lng /22.01.2008>).

Table-3. The Number of Visitors Coming to Antalya and the Rates According to Nations Between the Years of 2006 and 2009 (<http://www.antalyakulturizm.gov.tr/>) - Ministry of Culture and Tourism Statistics.

Nations	2006 (Jan-Dec)		2007 (Jan-Dec)		2008 (Jan-Dec)		2009 (Jan-Dec)	
	Number of Visitors	Rate of Nations	Number of Visitors	Rate of Nations	Number of Visitors	Rate of Nations	Number of Visitors	Rate of Nations
Germany	2,087,430	34.73	2,208,969	30.30	2,309,762	26.97	2,298,231	27.82
Russian Fed.	1,293,336	21.52	1,817,974	24.93	2,183,302	25.49	2,112,673	25.58
Holland	374,163	6.22	388,250	5.32	443,316	5.18	425,966	5.16
Ukrain	244,824	4.07	325,283	4.46	452,978	5.29	344,233	4.17
UK	182,758	3.04	218,032	2.99	279,093	3.26	319,913	3.87
Others	1,828,672	30.42	2,332,848	31.99	2,896,062	33.81	2,759,383	33.40

Innovation

A number of studies have found that innovation is the most important tool that enterprises use to maintain a competitive advantage (Chen and Jaw, 2009: 247). The convergence of consumer preferences worldwide and the international diffusion of technology have influenced both the pace and the locus of innovation (Reddy, 1997:1821).

Due to fierce competition in the marketplace, globalization and an explosion of technology in recent years, innovation and differentiation are considered as a necessity for every company. At the same time, to achieve market success and sustain a competitive advantage, businesses need to exploit new opportunities, develop new products and/or services and markets (Tajeddini, 2010: 221).

The increased facility of communication, as a key component of globalization, has, in turn, helped to speed technology transfer from one country to another. Information about innovations is disseminated throughout the world almost instantaneously in fields in which technology-exchange agreements between firms are widespread (Gomory & Baumol, 2004: 428).

Due to the globalization process which has occurred over the past few decades, innovation in the service industry seems inevitable. Recent history has shown that the hospitality industry in general and the hotel industry specifically are service industries that are very vulnerable to changes in the economy and different incidents, such as global and national financial crises and natural disasters. It's therefore important that this type of service industry is dynamic enough to be able to adapt to changes in their environment and competition. More specifically, under such conditions, hoteliers have to be innovative and flexible to develop sustainable competitive advantages. The adoption of innovativeness can help a hotel to adopt new ideas, processes and ways of acting by certain social communities, such as suppliers, involved organizations and subunits, groups and persons (Tajeddini, 2010: 229).

Innovation is defined as ‘implementing new ideas that create value’. This generic description refers to the various types of innovation such as product development, the deployment of new process technologies, and management practices. This means the adoption of new products and/or processes to increase competitiveness and overall profitability, based on customer needs and requirements (Leskovar, 2007: 535).

Innovation is viewed as an evolutionary process within an organization to adopt any change pertaining to a device, system, process, policy, or service that is new to the organization. Innovation capability basically refers

to the firm's ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm. Innovation may occur in every aspect of an organization's operations. Technological and administrative or managerial innovations especially have received a considerable amount of attention because together they cover a wide range of changes within the organization. New technologies, new products and new services are typically regarded as technological innovation. In contrast, new procedures, new policies and organizational firms belong to administrative innovation (Yang, et al., 2009: 6).

Due to the constant change and increasing competitive pressures on today's hotel industry, hoteliers strive to maximize business results through growth and increasing profit margins. Hence, they face more demanding customers, new regulations, globalization, and the destabilizing effects of technological advancement. All of these critical factors change the hotel landscape significantly and are introducing new challenges and generating new requirements for hoteliers. Therefore, they have to be innovative, exploit marketplace opportunities and, similar to other service organizations, develop long-term relationships with their customers. In view of the nature of the hotel industry, a more customer-oriented approach might be especially required of them for improved performance (Tajeddini, 2010: 221-222).

Innovation capability is regarded as a process involving the interaction of many different resources. Hence, successful innovation relies on firms' resources, such as people, equipment, knowledge and money (Yang, et al., 2009: 7).

Burns and Stalker (1971) viewed the management of innovation as a product of the social processes taking place within organizations. The act of innovation is often considered in terms of the generation and commercialization of new ideas of economic or competitive value. According to Boer (2002), continuous innovation is the ongoing interaction between operations, incremental improvements, learning, and radical innovation aimed at effectively combining operational effectiveness and strategic flexibility, exploitation and exploration. Recent developments in society, markets, technology, and industry suggest that leading organizations need to find configurations of processes, procedures, people, technologies and organizational arrangements that allow them to be continuously innovative (Chen and Jaw, 2009: 249).

The Measurement of Innovation

The most innovative hotels are those that use professional management instruments. Innovative hotels are furthermore more positive towards using Information Technology. Thus, the more professionally organized hotels appear to be more innovative. Furthermore, the production system explains the innovative behaviour of the firms. The innovative tourism firms are characterised by their production system being mostly modularised (standard elements that are combined individually to the individual customer) and by using several types of organisations of the innovation activities of which ad hoc project groups is the most commonly used type (Sundbo, et al., 2007: 98-99).

The innovation system in tourism should emphasise the last part of the technology - economic network, namely the commercial development - market relation. As elsewhere in the service sector, the innovation system would be most efficient if it is strategy based and market/customer-oriented - without forgetting the technological possibilities (Sundbo, et al., 2007: 104).

Organizational innovation capability can be measured by two categories, i.e. innovation intensity and innovation advantage. Innovation intensity measures the extent of the company's innovation output in the form of innovative products, process, organizational and marketing innovations. Innovation advantage measures the extent of the advantages achieved by the company's innovations. The measure includes financial and market advantages. Internal organizational capabilities can be measured by three categories, i.e. innovation-oriented culture, entrepreneurship and market orientation. Organizational culture is very supportive of creativity and innovation (Leskovaar, 2007: 539).

We have determined five possible variables to measure innovation. These five measures are number of innovations introduced to market, availability of formal procedures supporting the creativity and innovation, encouragement of staff to be creative and innovative, diverse uses of information and communication, availability of technologies mostly with web-based services offering, and implementing new ideas, services or processes.

The Effects of Innovation

Technologies are expected to benefit the firms in three ways: (i) by adapting products and processes to the changing conditions, it improves the efficiency of the firms's operations and the customers' access to products that are better suited to their needs, perhaps at a lower price; (ii) by assisting the firms in introducing a new product/service, technologies may help improve the performance of the firms; and (iii) technologies derives benefit as well as contributes to the progression of the capabilities of innovation. (Schulze & Ursprung, 1999: 301).

The most important reason for locating innovation activities in tourism firms is to train their staff. Dispersed innovation activities of firms require excellent communication and other infrastructural facilities. The firms seeking to attract innovation investments should establish such infrastructural facilities on a priority basis.

Information Technology (IT) investments are the technology driving force in tourism activities. IT is used in the back-office for handling routine operational problems and to facilitate multi-stakeholders interactions as well as in yield management. IT is used as well, for example, in the front office for customer relationship management.

Tourism activities are open to technology investment. Because;

- Tourism activities are information-intensive industries; they are particularly receptive to IT investments.
- Tourism offer is a set of products and services that need to be properly bundled; technology can be useful to realize integration between a large set of different suppliers (Jolly & Dimanche, 2009: 579).

Customers can access guest reservation systems and make bookings from a central location by using information systems. Hotels are 'location bound' and many services such as housekeeping, food and beverage preparation and serving, laundry and reception duties must be performed in, or close to, the hotel itself. However, there are opportunities for cost savings and quality improvements through concentration of 'back-office' activities such as account management, finance, training, and other support activities which do not directly involve guest contact. With advances in information technology, the ability to centralize such functions has increased (Whitla, et al., 2007: 783).

Networks are an important factor for innovation. They support innovations as they facilitate the transfer of information, learning and the coordination of production and product development activities. In tourism, networks may be both non-local and highly localised within tourist destinations and may combine the benefits of local and global networks. At the destination, such networks may be comprised of local relations among firms in the same branch of tourism, e.g. hotels; of relations among complementary firms, e.g. hotels and other tourism firms; and of relations with providers of inputs. Non-local networks, on the other hand, consist of chain relations; of relations among firms on destinations and their distributors, e.g. tour operators; and of relations with providers of inputs. Such different relations may provide different benefits depending on their structures and the actors involved (Sundbo et al., 2007: 92-93).

Some innovations are purely behavioural and do not include technology, and could be called organisational innovations, however, this would not be the correct notion as some of them are changes of organisational structures or culture, but some are changes in individuals' social behaviour. Other innovations are real technological ones such as introducing a web-net based ticket purchasing or reservation system for all kinds of tourism firms. The innovation is a changed behaviour, but the new behaviour could not be carried out without new technology. An example is the change in the behaviour of a hotel receptionist who starts treating the customers individually (remembering their wishes concerning rooms, their careers, etc.). This innovation will increase customer satisfaction and thus the willingness to pay a higher price, and return at a later date. This is a case of behavioural change on behalf of the receptionist. However, since receptionists change and cannot remember the personal data for thousands of customers, the new behaviour is based on a common PC-system where the personal key in the information about the customer as soon as they get it. Innovation in tourism can thus neither be reduced to the introduction of Information Technology or other technology, nor can technology be excluded (Sundbo et al., 2007: 90).

Innovations and new ideas may be dependent on the willingness of the staff to make positive changes and innovations in the organization (Leskovar, 2007: 538).

The Effects of Innovation on Service Quality

Tourism firms' competitiveness depends on their innovativeness in achieving lower costs and higher quality outputs that meet the demand requirements of potential customers, and which introduce new products (e.g.,

improved services and products, individualisation, environmental issues and ICT interaction) (Sundbo et al., 2007: 88).

When controlling for various organizational cultures (i.e., market, ad hococracy, clan, and hierarchy), Deshpande et al. (1993) concluded that customer orientation and innovativeness are key determinants for business performance. Moreover, hotels have to be innovative in achieving lower costs and higher quality outputs (Tajeddini, 2010: 223).

Innovation capability was found to relate positively to firms' customer service performance in terms of operational service quality and value adding performance (Yang, et al., 2009: 7).

Investment in technology for tourism activities can lead to several benefits. These benefits are to expand business (e.g., increasing sales, broadening market reach especially foreign markets; improving service quality; providing one-to-one interaction); to improve productivity and efficiency (e.g., reducing transaction costs, reducing communication costs, reducing distribution costs) (Jolly & Dimanche, 2009: 579).

The introduction of new technologies (especially information and communication) has significantly reduced the costs and increased the service quality and productivity by decreasing the mistakes (Sharmistha, 2001: 51).

Service Quality

The importance of quality as a business objective is recognised by chains such as the Four Seasons and Rocco Forte hotel groups which are addressing service quality as a key success factor that can bring significant strategic advantage (Briggs, et al., 2007: 1007).

There is a lack of consensus about the construct of service quality. The most common approach is that of the disconfirmation paradigm which asserts that quality can be defined as the gap between customers' expectations and perceptions (Briggs, et al., 2007: 1008). Owing to the intangible, heterogeneous and inseparable nature of services, service quality has been defined as "the consumer's judgment about a product's overall excellence or superiority" or "the consumer's overall impression of the relative inferiority/superiority of the organization and its services". Many models have been developed to measure customer perceptions of service quality (Martinez, 2010: 30).

From the perspective of customer perceptions, this concept is the result of comparing customer expectations and perceptions. For Gronroos, "the perceived quality of a given service will be the result of an evaluation process, where the consumer compares his expectations with his perception of the service received; in other words, he places the perceived service and the expected service opposite one another". Since customers evaluate the quality of a service, numerous contributions in the literature have attempted to establish which criteria or factors they consider when evaluating service quality, or its dimensions. A pioneering study by Gronroos (1984) proposes three dimensions: technical quality, functional quality, and image (Saez, et al., 2007: 48).

There is consensus that the quality of the service encounter is critical to business success or failure and that service quality is rarely concerned with a single aspect of service but with the whole service package. Indeed service quality in a tourism context has been viewed mostly as the quality of the opportunities available at a destination and is considered to be related to a tourist's quality of experience (Briggs, et al., 2007: 1009).

The hotel sector faces manufacturing problems in providing high quality products and service delivery problems in providing high quality services. The delivery of hotel services involves high contact encounters with significant interaction among customers, staff and facilities. Variability is inherent (and in some cases desirable) in service delivery. The challenge for management is to balance the need for routine and standardisation with the need to treat customers as individuals. Excellent companies know that positive employee attitudes promotes stronger customer loyalty, thus companies must attract the best employees with a long-term career focus (Briggs, et al., 2007: 1008-1009).

The Measurement of Service Quality

Garvin identifies eight determinants; performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. Parasuraman et al. identified ten which were subsequently collapsed into five; tangibles, reliability, responsiveness, assurance and empathy. There are several factors to evaluate the quality of tourism services. These factors such as waiting time for a service, processing time and availability of tourist

amenities for comfort and convenience are measures of the service level components. Service quality is an overall evaluation of the destination and satisfaction is concerned with the overall evaluation of the experience at the destination (Briggs, et al., 2007: 1009).

Tourist satisfaction is crucial in the sense that it affects expectations and intentions for the next destination purchasing decision. Thus, tourist destination considers customer satisfaction as one of the most important sources of their competitive advantage. Some authors suggest that service quality is a vital antecedent of customer satisfaction and, concretely, some relevant aspects of quality perception as promptness of service and on-time programming. Several activities related to tourism service like, for instance, transport infrastructure have to be provided in an efficient way to guarantee a high level of tourism service quality. For transport services, reliability becomes the core of service quality (Cejas, 2001: 874).

The tourism industry uses service quality measurement models frequently, particularly the SERVQUAL scale and variations on it. Most studies of accommodation services have focused on hotels, without particular reference to rural environments. Various authors have applied the SERVQUAL instrument to hotels with little modification. Their results confirm the latter's five dimensions. The most important is reliability, followed by assurance, responsiveness, tangibles, and empathy (Saez, et al., 2007: 49).

Tsaur, Chiu and Huang establish eight dimensions - responsiveness, tangibles, meal service, location, reliability, empathy, reputation, and business service - to measure service quality in international hotels, ranking responsiveness and tangibles most significant and meal service least. Ekinci and Riley propose 35 items divided into 7 dimensions: decoration, cleanliness, staff behavior and attitude, output quality, accessibility, timeliness, and reliability. After applying a Q analysis and the Guttman procedure, only decoration, staff behavior, and output quality are valid. Erto and Vanacore present a probabilistic approach to evaluating hotel service quality. Thus, no consensus exists on evaluation and measurement of service quality dimensions in the hospitality industry (Saez, 2007: 49).

The literature overview provides information on dimensions used in previous studies and in research on other types of accommodation, such as hotels. The dimensions initially considered reflects several aspects: tangible elements (physical facilities, decoration, cleanliness of facilities and personnel), reliability (including accuracy of prices and advertising), professionalism (competence), credibility (accommodation image), responsiveness (includes timeliness), courtesy, security (including physical safety), accessibility (including location), communication, understanding, and complementary offer (complementary services integrated into the rural environment) (Saez, et al., 2007: 51).

For the guest perception, the most relevant attributes are identified. Guest perception is decomposed into premises, services, and additional services. Premises consist of attributes that describe the hotel's location and buildings (landscape and environment). Environment describes the hotel's surroundings (architecture, order and cleanliness, access to the hotel, and availability of parking spaces), while the inside of the hotel building is embedded in the attribute hotel (equipment, homeyness, cleanliness, and spaciousness). The services are divided into food service (taste, look, variegation, and quality of service), drinks (diversity of drinks offered, serving quality, and their tradition), and attitude of personel (personnel to customer, personnel to personnel, and cleanliness of the personnel). The attribute additional services describe the availability of additional services provided on the hotel (such as sports, animation, and souvenir sales). The attribute repeat visits represent important information: whether the guest is willing to visit the hotel again (Rozman et al., 2009: 632).

The first service quality model was proposed by Grönroos. This author adapts the disconfirmation paradigm from customer satisfaction literature in order to propose that the quality of the service is dependent on expected service and perceived service. Expected service quality is formed by variables such as word of mouth, corporate image, advertising, pricing or personal factors, whereas perceived quality is the result of consumer's view of a bundle of service dimensions, some of which are technical and some of which are functional in nature. Technical quality refers to the out come of the service performance or what the customer receives in the service encounter. Functional quality relates to the subjective perception of how the service is delivered and defines customers' perceptions of the interactions that take place during service delivery. Grönroos also claims that under certain conditions corporate image can act as an other service quality dimension, although, inreality, it is a variable that moderates the relationships between quality dimensions (technical and functional) and perceived quality (Martinez, 2010: 30).

Most recently, Brady and Cronin suggested a hierarchical and multidimensional model. These authors combined the traditional approach of service quality (i.e., the Tri-component model of service quality) with the multilevel

conceptualization of service quality. They described a third-order factor model, in which service quality is formed by three primary dimensions, such as interaction quality, physical environment quality and outcome quality. Each of these dimensions is formed by three corresponding subdimensions such as attitude, behavior and experience (interaction quality); ambient conditions, design and social factors (physical environment quality); waiting time, tangibles and valence (outcome quality) (Martinez, 2010: 33).

We have determined five possible variables to measure service quality. These five measures are application of service quality management system, providing cleanliness, safe accommodation for customers, staffs' treatment to customers, providing quality cooking, and safety measures.

The Effects of Service Quality

The effectiveness of a service business is linked to service quality and, in the hotel sector, service quality not only has a positive and direct effect on competitiveness, but also an indirect positive effect via other variables such as occupancy level and average direct costs. Service quality is critical to the profitability of the sector and to the growth of tourism (Briggs, et al., 2007: 1008).

Natural surroundings and infrastructures that provide activities to bring the tourist into contact with nature are important elements in choosing a destination, but there are others. Return visits and generation of income also depend on the how tourists value quality during their stay. Receiving excellent service reinforces the loyalty of current customers and increases the prospect of attracting new ones as well as generating more income. Loyalty to a destination can be strongly related to the quality of services offered, where they enable the tourist to enjoy participating in the host surroundings or the tasks, customs, and lifestyle of local inhabitants (Saez, 2007: 46).

METHODS

The Scope and Model of the Research

The contribution of this research should be discussed with respect to the progress made in methodological and empirical knowledge about the impact of globalization on service quality and innovation of firms in tourism sector in Antalya.

In this study, globalization as an independent variable, innovation and service quality as dependent variables are chosen. Here, the relationships between dependent and independent variables (positive or negative) have been investigated and measured. With regard to this issue, various hypotheses have been developed and the accuracy of these hypotheses was investigated. The correlation type relationships between variables have been investigated.

Globalization supplies a growth in trade and consequently provides new opportunities for hotels in the tourism sector. The changing structure of markets and demands of consumers with globalization have forced hotels to rethink their processes to improve service quality. In light of all, it can be proposed that;

Hypothesis 1: Globalization has a positive effect on innovation of hotels in tourism sector.

Hypothesis 2: Globalization has a positive effect on service quality of hotels in tourism sector.

Hypothesis 3: Innovation has a positive effect on service quality of hotels in tourism sector.

We have studied correlation type relationships as was shown in Table-4.

Table-4. Dependent and Independent Variables

Dependent Variables	Y	Independent Variable	X
Innovation	Y ₁	Globalization	X ₁
Service Quality	Y ₂		

A symbolic model has been used as research model as shown in Figure-1.

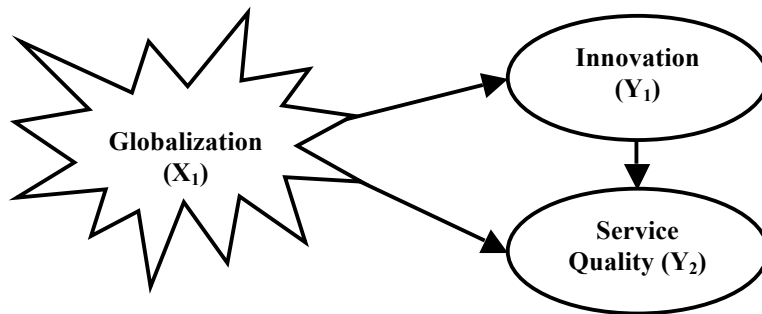


Figure-1. Impacts of Globalization on Service Quality and Innovation in Tourism Sector

Data and Sample

This paper aims to present impacts of globalization. The data is analyzed empirically whether globalization impacts the hotels by developing their innovation and service quality or not.

Analysis has been carried out using data which were obtained from the hotels on tourism sector in Antalya by using a questionnaire form in 2010.

A questionnaire survey was carried out in Antalya, Turkey. The questionnaires were applied to 53 firms. The number of tourism licenced establishments with 5 stars is 169 (population) in Antalya in 2008 (<http://www.kultur.gov.tr>). The rate of randomly selected sampling is 31.4 % (53/169). Among them, however, only 1 questionnaire couldn't be used for the analysis because of incomplete reply from a respondent. Among the 53 responses, 21 were from Antalya and the rest 31 were from Belek. Calculations were based upon 52 firms on tourism sector. In the study, respondents were asked to rate on five-point Likert scales ("certainly disagree"/"certainly agree").

Antalya is a big, safe and beautiful city with clean air, sea and water. This city has an unspoiled and natural environment with a very attractive location. It is no wonder that Antalya has been one of the first cities to develop tourism as a major industry. For many travelers, this is important when choosing an overseas destination for their holidays.

The hotel industry in Antalya has a reputation for excellence and providing high quality, reliable services. It is true that hotels in Antalya are generally clean, tidy and organized. In almost all hotels in this city, the owners and managers attempt to maintain the reputation through consistent high standards in operating methods, service delivery and development.

Analyses and Findings

Data collected from questionnaires were entered into the computer and analyzed with SPSS 15.0, a kind of statistics program. In the investigation of the relationship between variables; whether there was a relationship or not, and the direction and degree of relationship were taken into account.

Factor analysis, reliability analysis, correlation analysis and regression analysis for hypothesis tests were conducted respectively. Hypotheses were tested in accordance with the results emerged from regression analysis. Analysis and the results are explained below.

In this study, hotels operating in tourism sector in Antalya were chosen as the research population. Hotels with 5 stars in Antalya were taken as the sample of the research (31.4 percent of population). Questionnaires were subjected to respondents by interviewing face to face. Of the respondents, 67.3 percent were top level managers (vice president, managers), 17.3 percent were mid level managers (assistant of manager), and 15.4 percent were low level managers (chiefs). According to descriptive statistics analysis, some information is given in frequency tables, Table-5.

Table-5. Frequency Tables

Job Title	f		%		Tot. Num. of Beds	f		%		Number of Staff	f		%		Star Rate of Firms	f		%		Age of Firms (years)	f		%	
Top Man.	35	67.3	<300	0	0	60-120	4	7.7	4 stars	3	5.8	0-5	15	28.8										
Mid Man.	9	17.3	300≤X<600	9	17.3	121-180	8	15.4	5 stars	49	94.2	5-10	15	28.8										
Low Man.	8	15.4	600≤X<900	15	28.9	181-240	10	19.2				10-15	7	13.5										
			900≤X<1200	14	26.9	>240	30	57.7				15-20	11	21.2										
			≥1200	14	26.9							> 20	4	7.7										

a) Factor Analysis

In factor analysis, the dependent and independent variables were considered separately and variables were analyzed in this way. Factor loadings for the innovation are given in Table-6. Total variance explained is 54.1 %.

Table-6. Factor Loadings for Innovation

Dependent Variable	Questions	Component
Innovation (Y ₁)	B.1	.604
	B.4	.630
	B.5	.506
Rotated Component Matrix. Solution (Extraction) Method: Principal Component Analysis		

The results of factor analysis for service quality are given in Table-7. Total variance explained is 44.7 %.

Table-7. Factor Loadings for Service Quality

Dependent Variable	Questions	Component
Service Quality (Y ₂)	C.1	.833
	C.3	.703
	C.4	.666
	C.5	.849
Rotated Component Matrix Solution (Extraction) Method: Principal Component Analysis		

Factor loadings for globalization are given in Table-8. Total variance explained is 59.8 %.

Table-8. Factor Loadings for Globalization

Dependent Variable	Questions	Component
Globalization (X ₁)	D.3	.864
	D.4	.860
	D.5	.870
Rotated Component Matrix Solution (Extraction) Method: Principal Component Analysis		

b) Reliability

The alpha reliability coefficients for variables are given in Table-9. In all questions about globalization, innovation and service quality, the reliability (alpha coefficient) is 81.1 %.

Table-9. The Result of Reliability Analysis

Variables	Alpha Coefficient (α)
Globalization (X_1)	.799
Innovation (Y_1)	.787
Service Quality (Y_2)	.676

Alpha coefficients obtained were accepted because it was higher than 0.50 defined by Bagozzi & Yi (1988) in literature. As a result, reliability values for variables were higher than the value defined and accepted by international literature.

c) Correlation Analysis

The values for Pearson correlation coefficients are shown in Table-10. In the correlation table, one to one relationships between independent variable and dependent variables are given.

Table-10. Correlation Values

Variables		Y_1	Y_2	X_1
Y_1	Innovation	1,000		
Y_2	Service Quality	.469**	1.000	
X_1	Globalization	.255	.006	1.000
Pearson Correlation and Significance				
**. Correlation is significant at the 0.01 level (2-tailed)				

d) Regression Analysis and Hypotheses Tests

Hypotheses proposed in the model were tested by using regression analysis. Regression equations have been suggested for testing the hypotheses. These equations defined as a mathematical model are given below:

$$X_1 = \beta_0 + \beta_1 * Y_1.$$

$$X_1 = \beta_0 + \beta_2 * Y_2.$$

$$Y_2 = \beta_0 + \beta_3 * Y_1.$$

Here dependent variable Y_1 defines innovation. Similarly, another dependent variable Y_2 defines service quality, and independent variable X_1 defines globalization. Here Y_i is i^{th} variable; β value is standardized beta regression coefficient. After conducting regression analysis, according to β coefficients and significance level (ρ) of variables hypotheses would be accepted or rejected.

In the analysis, “Innovation” was taken as the dependent variable as shown in Table-11. Regression analysis was conducted by choosing globalization as an independent variable. In this regression model, $R^2=0.065$, $\rho=0.068$ and $F=3.470$ values were obtained. The results indicate that there exists no significant relationship between “Globalization” and “Innovation”.

Table-11. Globalization Affecting Innovation

Independent Variable	Beta (β)	Anlamlılık (ρ)
Globalization (X_1)	.255	.068
$R^2 = .065$		
$F= 3.470$		
$\rho= .068$		
**. Correlation is significant at the 0.01 level (2-tailed)		
*. Correlation is significant at the 0.05 level (2-tailed)		
Dependent Variable “Innovation”		

In the second regression model, “Service Quality” was taken as the dependent variable as shown in Table-12. Regression analysis was conducted by choosing globalization as an independent variable. In this regression analysis, $R^2=0.000$, $\rho=0.968$ and $F=0.002$ values were obtained. These values don’t explain any significant relationship between “Globalization” and “Service Quality”.

Table-12. Globalization Affecting Service Quality

Independent Variable	Beta (β)	Anlamlılık (ρ)
Globalization (X_1)	.006	.968
$R^2 = .000$		
F= 0.002		
$\rho = .968$		
**. Correlation is significant at the 0.01 level (2-tailed)		
*. Correlation is significant at the 0.05 level (2-tailed)		
Dependent Variable "Service Quality"		

In the analysis, "Service Quality" was taken as the dependent variable as shown in Table-13. Regression analysis was conducted by choosing innovation as an independent variable. In this regression analysis, $R^2=0.220$, $\rho=0.000$ and $F=14.111$ values were obtained which indicate that there exists a significant relationship between "Innovation" and "Service Quality".

Table-13. Innovation Affecting Service Quality

Independent Variable	Beta (β)	Anlamlılık (ρ)
Innovation (Y_1)	.469**	.000
$R^2 = .220$		
F= 14.111		
$\rho = .000$		
**. Correlation is significant at the 0.01 level (2-tailed)		
*. Correlation is significant at the 0.05 level (2-tailed)		
Dependent Variable "Service Quality"		

The results of regression analyses belonging to globalization, innovation and service quality are shown schematically in a collective manner in Figure-2 below. The relationships accepted are shown by arrows with thick lines.

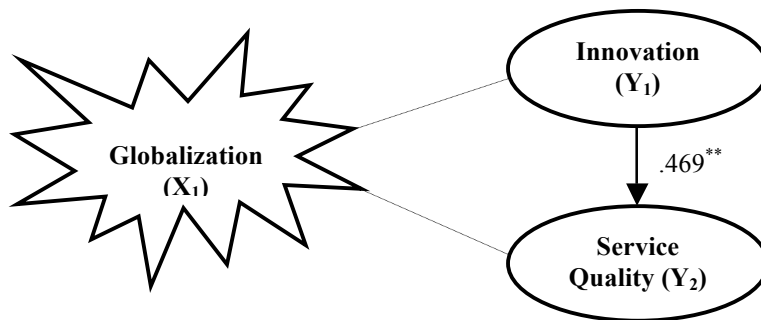


Figure-2. Impacts of Innovation on Service Quality in Tourism Sector

As a result of findings, equation considered as a mathematical model is given numerically below:

$$Y_2 = 0.296 + .469^{**} Y_1$$

RESULTS

Our results show the implications of globalization and the relationships between service quality and innovation. These outcomes have some implications for future research as well as for business, socio-cultural and political decisions.

The results regarding the hypotheses are shown in Table-14. Totally 3 hypotheses are ranked in the Table. With regard to the results; Beta coefficients (β), Significance (ρ) and ACCEPTED/REJECTED (A/R) status are also given in the Table. According to these results; only 1 hypothesis was accepted at significance level of 0.01 level.

Table-14. The Results Belonging to Hypotheses

No	Hypothesis	(β)	(ρ)	A/R
H_1	<i>Globalization has a positive effect on innovation of hotels in tourism sector</i>	.255	.068	R
H_2	<i>Globalization has a positive effect on service quality of hotels in tourism sector</i>	.006	.968	R
H_3	<i>Innovation has a positive effect on service quality of hotels in tourism sector</i>	.469**	.000	A

These findings do not support the Hypothesis 1 (H_1) and Hypothesis 2 (H_2) that globalization has a positive effect on innovation and service quality of hotels in tourism sector. Nevertheless, these findings support the Hypothesis 3 (H_3) that innovation has a positive effect on service quality of hotels in tourism sector.

As a result, the findings state that there is no effect between globalization and, innovation and service quality. These results may be due to the relatively small amount of hotel samples. Moreover, total variance explained (<70) is low. Therefore, further similar research of a larger sample is necessary to confirm the hypotheses of this study before making a robust evaluation across the Turkish hotels.

At the last part of the questionnaire the impact of globalization on innovation and service quality, and the impact of innovation on service quality were directly asked to respondents as an open ended question.

Table-15. The Results of Reliability Analysis

Variables	Alpha Coefficient (α)
The Effect of Globalization on Innovation	.904
The Effect of Globalization on Service Quality	.893
The Effect of Innovation on Service Quality	.919

When the answers given by respondents were analyzed by T test, it was found out that respondents had an attitude at a significant level. Accordingly, common attitudes of respondents are on the direction that there is an impact of globalization on innovation and service quality. Moreover, they reported that innovation also impacts the service quality.

Table-16. T Test and Mean

Variables	Sig. (2-tailed)	Mean	t
The Effect of Globalization on Innovation	0.000	4.12	42.45
The Effect of Globalization on Service Quality	0.000	4.12	41.38
The Effect of Innovation on Service Quality	0.000	4.37	48.28

The respondents' opinion that innovation affects the service quality is stronger (4.37) than the other statements. That opinion also supports the result that innovation affects the service quality, which is consistent with the findings of correlation analysis.

CONCLUSION

The contribution of this research should be discussed with respect to the progress made in methodological and empirical knowledge about the impact of globalization on innovation and service quality of firms on tourism sector in Antalya.

The results obtained from regression analysis indicate that there exists a significant relationship between innovation and service quality. The values, however, indicate that there exists no significant relationship between globalization and innovation. Moreover, the values don't explain any significant relationship between globalization and service quality. These two findings have been surprising and inconsistent with the previous literature. The reason behind that might be the small size of the sample that could be realized in the research due to the inevitable restrictions. In addition to this, interest and participation of respondents were found to be low in this research. Unfortunately, some hotels have emphasized that they could not take the time to apply the survey.

Some general conclusions can be drawn and suggestions can be offered for country tourism. These suggestions can be arranged as below:

- Determine a vision and targets by analyzing and evaluating the existing tourism situation. Then, reconsider and plan the tourism products and services offered.
- Promote the country by exporting culture, art and films with TV and cinema.
- Strengthen the international cooperation and trace global trends and demands closely.
- Extend the season throughout the year by diversifying products and services.
- Create high quality in all processes and products/services by transferring and using technology.
- Enhance the staff quality with university education on tourism.
- Studies on product deployment across the enterprise, enhancing staff qualities, search for cooperation and innovation should all be encouraged in tourism industry.
- A tourism database should be set up and implemented for the purpose of providing information to firms for R&D. By obtaining and evaluating these informations, firms will be able to achieve innovations. For sustainable R&D, research and statistical studies shall be monitored and assessed on an ongoing basis in firms. Media and Internet should be used for spreading of information.

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HUMAN CAPITAL HETEROGENEITY AND ORGANIZATIONAL PERFORMANCE ANALYSIS: AN EMPIRICAL STUDY ABOUT INTERNATIONAL HOTEL CHAINS IN TURKEY

Ali Halici

Baskent University, Turkey

Ramazan Aktaş

TOBB University, Turkey

Murat Kasimoğlu

Canakkale Onsekiz Mart University, Turkey

Ahu Genis Gruber

TOBB University, Turkey

ABSTRACT

Today, workforce diversity is not only a legal requirement for organizations, but it is also a must to survive in a highly competitive business environment. The prime motive for this study is to investigate the relationship between workforce diversity and perception of discrimination. The basic hypothesis of the study is that as the workforce diversity increases, the perception of discrimination decreases. In order to test the hypothesis, a survey is carried out international hotel chains in Istanbul. There are 19 international hotel chains in Turkey. In this study research is designed to understand human capital heterogeneity pattern of international chains of hotel industry and how this contribute organizational culture strategically that help to manage organizational performance much more efficiently with cross sectional data. Globalization of markets, changing demographics in the labor market, new business strategies requiring team work and the shift from a manufacturing to a service economy are the prime reasons for human capital heterogeneity (HCH). HCH improves the organizational capabilities in terms of flexibility, creativity, problem solving and competitive advantage. Especially in the service sector, in order to gain competitive advantage, organizations need a diverse workforce for both understanding the diverse needs of customers and answering to these needs in a prompt and proper way.

Keywords: human capital, organizational performance, hotel chain

INTRODUCTION

Although there are various classifications of discrimination types in the literature, two of the most widely stated ones are disparate treatment and disparate impact. Disparate treatment occurs when individuals in similar situations are intentionally treated differently based on such factors as race, religious belief, sex, age, national origin, disability status. Disparate impact occurs as a result of employment processes or decisions that result in discrimination, although there is no such discriminatory intention.

Discriminatory practices towards workforce result basically from prejudice against individuals or certain groups (women, black people, the disabled etc.) There are negative consequences of discriminatory practices for the organizations such as high turnover rates, decreased employee efficiency and motivation, increased absenteeism rates, increased failure rates in selecting the best people for the job, diminished competitive advantage and as a result of these, decreased overall efficiency and effectiveness of the organization.

Although there are legal regulations concerning workforce discrimination, discriminatory practices continue to exist. On the other hand, changing world of today and globalization result in more organizations valuing workforce diversity. Diversity means that organizations are becoming more heterogeneous in terms of sex, race, age, national origin, thought, viewpoint etc.

HUMAN CAPITAL HETEROGENEITY

Heterogeneity stands for organizational or societal variety in which human beings differ from one another demographically (Ferris, Buckley & Fedor, 2002:122). The variety of workforce concept consists of several dimensions which can be named as gender, race, nationality, religion and disability (Byars & Rue, 2000:7). Heterogeneity in human capital stands for human features that diverge individuals from one another. (Mejia, Balkin & Cardy, 2001:124).

The dimensions of variety can be categorized under two frameworks. The primary dimension consists of basic features which every individual has in common and features that can not be changed (Reece & Brandt, 2003:156); they are born and/or specify the features that start in early socialization process of individuals which have an important impact on life-long period of every individual. The primary dimensions are age, ethical background, gender, physical and mental abilities, race and sexual preferences (Loden & Rosener, 1991:18-19, Reece & Brandt, 2003:156). The secondary dimensions consist of features that individuals can change consciously and on purpose, can gain or can quit, such as education level, residential location, marital status, work experience, income level, religious beliefs, political beliefs, health habits, communication means (Mejia, Balkin & Cardy, 2001:124, Reece & Brandt, 2003:156).

THE REASONS OF HUMAN CAPITAL HETEROGENEITY

In the new era, globalization and its' recently formed structural consequences have led Human Capital Heterogeneity (HCH) to become an important issue. Especially, HCH in the organizational systems should be designed in order to support the expansion to different markets, and to establish a synergic organizational culture.

There are numberless developments that led "Change is good" mentality rather than "Change is bad" mentality to take over in organizational change process. These developments can be summarized as;

a. Change in Workforce Demographic Structure

The change in workforce demographic structure has changed the size and the composition of new employees pool (DeNisi & Griffin, 2001:477).

b. Globalization of Market

Global variety means everything and everyone should be analyzed in concept of resemblance and diversification features (Byars & Rue; 2000:8).

c. Shift from Production Economics to Service Economics

d. Organizational Understanding of Variety and/or Diversification Features

Another important factor for contributing workforce diversification is organizational understanding of workforce quality improvement by employing and promoting the most qualified (DeNisi & Griffin, 2001:477).

e. New Business Strategies that Stimulate Teamwork Necessity

Organizations should be in the position to overcome the broad set targets and goals in order to be more durable, serve better and be successful. Thus, organizations should accomplish strategies that one specific department can not fulfill (Cascio, 2003:124).

RESEARCH METHODOLOGY

In our era, organizations should speak the cross-cultural language to succeed in the global competitive environment. New diversified communication tools that respond to various demands and needs should be developed and supply of similar product policies should be departed (Loden & Rosener, 1991:10).

One of the basic factors that organizations need to be successful, is to divert workforce and segment customer variety. Organizations that differ in terms of culture, language, clothing, customs and traditions that fulfill the necessity of being parallel to customers, respond their needs and requirements in a fast and convenient way.

In this study, service sector in which HCH term counts most, has been preferred. The conduct of study is planned to be in hotels area because of customer variety it offers and 24/7 service mentality, employment of diversified workforce, possession of various departments. The questionnaire has been developed under this framework and four and five stars hotels in Ankara regions that offer high numbers in terms of employees and low turnover rates, have been chosen as sample. 10 hotels out of 40 hotels have been chosen as sample.

In the questionnaire, demographical variety measurement data is being asked. Dependent on the literature review and primary and/or secondary dimensions, questions of the questionnaire are developed. The context contains gender, age, marital status, education level, work period in the job, position in the job, income level, religion, race, ethnical background and the physical or mental abilities. The return rate in 10 hotels is 210 respondents out of 550 employees.

FINDINGS RELATED TO HUMAN CAPITAL HETEROGENEITY

Two different measurement methods are applied in terms of workforce diversification measurement; Heterogeneity Index of Blau and Coefficient of Variation. Blau gathers parameters in two groups; nominal parameters and graduated parameters. As can be drawn from Figure 1, Blau states that the first parameter indicates heterogeneity and second parameter indicates inequality (Blau, 1977:8-9). Nominal parameters are the parameters that sub-groups the population. Graduated parameters are the parameters that diversify the individuals according to their status ranking (Blau, 1977:7).

Therefore, when measuring demographic diversification, gender, marital status, religion, race, nationality, ethnical background and physical and mental abilities, Blau's Heterogeneity Index is used (Knight, Pearce, Smith, Olian, Sims, Smith & Flood, 1999:452; Carpenter, 2002:279; Simons, Pelled, Smith, 1999: 666; Carpenter & Fredrickson, 2001: 538). Coefficient of Variation is used in the measurement of other factors. Data measured with Blau Index.

Measurement using Blau Index depend on the formula indicated below:

(Blau, 1977: 9).

$$1 - \frac{\sum x_i^2}{(\sum x_i)^2}$$

Data measured with Coefficient of Variation (Standard Deviation and Mean):

Data gathered from hotels are transferred to SPSS program and after having run the program, SD and Mean values of parameters such as age, education level, position in job, income level parameters are measured together with Blau Index.

HUMAN CAPITAL HETEROGENEITY MEASUREMENT CRITERIA

According to Blau's Heterogeneity Index, if the whole population is gathered under one group then there is no heterogeneity and the value is equal to zero (0). If all groups are in equal size, heterogeneity approaches to the value one (1) (Blau, 1977:9), which means that heterogeneity is at maximum. Thus;

As Human Capital Heterogeneity approaches to zero, population homogeneity should be pronounced. Workforce diversity is at its' maximum as the population groups show an equal distribution. As to Blau Index, the maximum heterogeneity level depends on the number of groups the population is distributed. When the Index is shown as : $1 - \sum p_i^2$ (where " p_i " shows the number of individuals in each group and the percentage of population (Blau, 1977:78), the maximum diversity level for each parameter can be calculated.

In the first half of the study which measures the demographic structural diversity, the parameters such as gender, nationality and physical and mental abilities that are measured with Blau Index, the population is categorized in two groups and the maximum diversification level is 0,50. Parameters such as religion and ethnical background categorize the population into four categories and the maximum diversification level is 0,75. Marrital status parameter categorizes the population into three groups and the maximum diversification level is 0,667.

At this stage of the study, Performance Index that concerns finance, sales performance and management systems efficiency of companies has been developed. Under this framework, Performance Indexes of each hotel have been developed by using three factors. The overlapping of Human Capital Heterogeneity and organizational performance is provided in Figure 1.

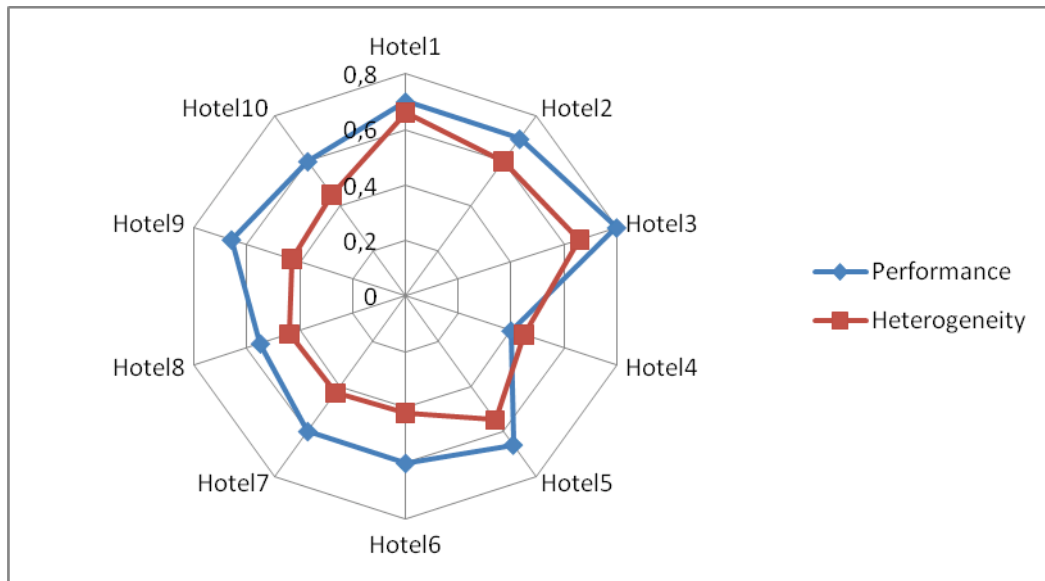


Figure 1: Overlapping of Human Capital Heterogeneity and Organizational Performance of Hotels

As can be drawn from Figure 1, HCH of companies creates a synergic effect and allows the company to show a more dynamic and a more innovative approach. Thus, companies should give great attention to plan their human capital stocks and organize them strategically. The companies can maximize their resources in this way and gain competitive advantage.

RESULTS

The study shows that hotels are neither aware of Human Capital Heterogeneity benefits nor know how to manage the process. They have a broader approach by not employing a diversified workforce in means of nationality diversification. The perception verifies for Turkish nationalities as well as foreign nationalities. The different treatment to Turkish nationalities is perceived as discrimination by foreign nationalities and also different treatment to foreign nationalities is perceived as discrimination by Turkish nationalities. The reason for discrimination perception is cultural differences.

In hotels sector, the customer diversification is a fact due to different customer profiles. The increase in HCH is a urge to serve cross-cultural customers in better ways as a result of global world economics which lead to foreign subsidiary openings and/or establish strategic alliances. The managers of hotels that serve different nationalities should give importance to this issue and find strategies to avoid such perceptions.

In the correlation analysis, by %95 meaning, the relation between education level and income level is measured and the result was 0,887 positive correlated. The income level increases as the education level increases and visa versa, the education level increases as the income level increases. As the income level increases individuals have more opportunities for a better education and as the education level increases their approach differs. The variation and diversity in approaches lead individuals to think about various behaviors.

The results compared to other studied conducted in the field, lead to similar results in terms of position in the job, but different in terms of education level. The main result for this difference is the implementation of study conducted in various cultures and in different sectors.

When the job advertisements in Turkey are analyzed, it reveals the fact that individuals who belong to middle-old aged groups are disadvantaged due to fact that job advertisements require age restrictions, innovative thinking and openness to change criteria. During evaluation of job applications, younger applicants are preferred and education opportunities are provided to younger employees.

The result of the study reveals that Human Capital Heterogeneity is low. Dependent on high ranking of Power Distance Index of Hofstede for Turkey and the tendency to avoid conflicts, employers tend not to react against discrimination or accept the inequalities in work environment. As a result of Power Distance Index, employees expect their managers to have an authoritarian management style and be stronger than themselves.

Workforce diversity, besides its' positive features, also possesses negative consequences. The most important consequence is conflict in the organizations, and as a result of grouping of similar employees, the division of communication networks and not being able to profit from different approaches in the organization.

Individuals are complicated systems and each dimension of diversification adds new complicated factor to the system process. Many individuals prefer homogeneity to heterogeneity, known to unknown and being with similar individuals to themselves. The reason for such a tendency is that individuals feel more comfortable and conflicts are minimized (Loden & Rosener, 1991:23).

It is natural that Human Capital Heterogeneity level is low when the effect of Uncertainty Avoidance Index, avoidance of conflicts, and friendship relations on Turkish culture are analyzed. Whereas, the study is conducted in hotels, thus in service sector. In service sector, customer diversity is high and with respect to this fact, the problem diversity which various personalities' differing needs and requirements result is also high. The problems in service sector, because of existence of human factor, are not always routine. Teamwork, different approaches, innovation and quick response to problems are required. This can only be reached through diversified workforce.

As a result of low Human Capital Heterogeneity in the study, it is seen that in Ankara four and five star hotels still lack such factors, avoid conflicts and are not well informed about conflict resolution techniques. Besides, because of homogenous workforce, services provided will also be limited in terms of variety and this will result in limited customer variety. This result will minimize organization's success and competitive advantage in the globalization process.

For future research, the effect of low ranking Human Capital Heterogeneity on process and the most effective management style to overcome the problems occurred due to this low ranking can be analyzed.

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RUSSIAN AND GERMAN TOURIST POTENTIAL AND SATISFACTION IN SUSTAINABLE COMPETITIVE ADVANTAGE OF ALANYA DESTINATION

Hulusi DOĞAN

Akdeniz University, Turkey

Süleyman BARUTÇU

Pamukkale University, Turkey

Engin ÜNGÜREN

Akdeniz University, Turkey

ABSTRACT

The purpose of the present study is to investigate and compare the potential and the satisfaction levels of Russian and German tourists visiting Alanya in creating a sustainable competitive advantage in Alanya destination. It is a common point that Russian and Germans are two nationalities most frequently visited Alanya, town of Antalya in Turkey. Moreover, every year many Russians and Germans decide to live in Alanya. So we wonder that how global crisis effected Turkish tourism industry, especially Alanya, and Russian and German preferences. The findings from the present study help decision takers to create new marketing strategies for Russian and German tourists.

Keywords: Destination Competitiveness, Tourism, Alanya, Tourist Profile, Tourist Satisfaction.

INTRODUCTION

In the global tourism industry, increased competition for tourists has spurred many countries, cities and organizations to specialize in developments that will give them an edge over their competitors. One way to achieve this is to embark on a marketing image that depicts a destination as unique and distinctive (Pawitra and Tan, 2003). Tourist satisfaction is assumed as one of the crucial elements for a superior advantage or a distinctive image, as it influences the choice of destination and the decision to return (Yoon and Uysal, 2005). From both the theoretical and the empirical perspectives, customer satisfaction is the key to companies' competitiveness and can be considered the essence of success in today's highly competitive world of business (Bitner and Hubbert, 1994). Therefore, enhancing customer satisfaction should be one of all destinations' primary functions and a prerequisite for the development of a strategy leading to a destination's enhanced attractiveness and its competitive positioning (Dmitrovic et al, 2009; Pearce, 1997).

In the literature, satisfaction is simply defined as the global evaluation that the consumer makes after a purchase (Campo and Yagüe, 2009). Churchill and Surprenant (1982) define satisfaction as an outcome of purchase and use resulting from the buyer's comparison of the rewards and costs of purchase in relation to the anticipated consequences. Maybe, "an evaluation of an emotion" is the shortest definition by Hunt (1977). Although different ones may be added to these definitions, consensus is sufficient regarding the key role of satisfaction for all industries from patient satisfactions in health industry to customer satisfaction in electronic retailing (e-tailing) industry and decision-makers as it leads to intention to (re)purchase, to willingness to pay more, and willingness to recommend goods/services to others (Yi and La, 2003; Yu and Dean, 2001; Barutçu, 2010; Garbarino and Johnson, 1999; Soderlund, 1998; Fornell et al., 1996; Anderson et al., 1994; Fornell, 1992; Johnson and Fornell, 1991). Otherwise, dissatisfaction may occur and lead to negative behavior, such as customer complaining behavior which ultimately affects retention rates (Campo and Yagüe, 2009).

Customer satisfaction also is a vital issue to provide managerial guidance for tourism industry (Dmitrovic et al., 2009). Because satisfaction is not only an essential element for maintaining long-term relationships with tourists but also affects intentions to return, reputation (Ryan et al., 1999) and trust (Selnes, 1998). Enhanced tourist

satisfaction may lead to increased revenues and profits for service providers. Thus, recognizing and understanding the cognitive and behavioral consequences of satisfaction has important implications for destination management (Dmitrovic et al., 2009). In other words, tourist satisfaction has an important role in planning marketable tourism products and services for destinations and its assessment must be a basic parameter used to evaluate the performance of destination products and services (Yoon and Uysal, 2005). For almost all destinations, tourist satisfaction is considered as one of the most important sources of competitive advantage (Fuchs and Weiermair, 2004; Buhalis, 2000). Therefore, tourist satisfaction monitoring may also help managers; to identify strategic objectives at the destination level, to prepare tactical and operational plans, and to increase the competitiveness of a given destination (Dmitrovic et al., 2009; Lee et al., 2008; LeHew and Wesley, 2007; Turner and Reisinger, 2001; Heung and Cheng, 2000; Soderlund, 1998; Lee et al., 2008; Hui et al., 2007; Pawitra and Tan, 2003; Huang and Xiao, 2000; Heung, 2000; Pizam et al., 1978). Furthermore, improvements in tourist satisfaction have come about better management for tourists, regarding better reservations, better signage, new customer care courses, and the installation of other information provision (Augustyn and Knowles, 2000).

Due to its key role of tourist satisfaction in sustainable competitive advantage of destinations, it is not so difficult to see numerous researches aimed to measure tourist satisfaction and its antecedents in the tourism literature (Serroto et al., 2009; Lee et al., 2008; Hui et al., 2007; Pawira and Tan, 2003; Kozak 2001a; Kozak, 2001b; Reisinger and Turner, 200; Huang and Xiao, 2000; Baker and Crompton, 2000; Heung, 2000; Soderlund, 1998; Tribe and Snaith, 1998; Pizam and Jeong, 1996; Hallowell, 1996). For example, Serrato and his friends (2009) stated about 12 potential variables that may influence the global satisfaction of tourists; hospitality and friendliness of people, quality of lodging facilities, environmental and cultural preservation, quality of the gastronomy, availability of fun and leisure activities, tourist information, public security, urban cleanness, noise in tourism areas, signs for tourism sites and services, infrastructure developed for tourism, and fair prices. Their regression analysis results for 1986 surveys indicated that the most important variable influencing global satisfaction of tourist was the hospitality and friendliness of people followed by fair prices. Gastronomy, the quality of lodging, and fun and leisure activities also showed some influence on global satisfaction, but a lower level. On the other hand, Cracolici and Nijkamp (2008) talks about two types of factors due to the results of their study for tourists evaluation of the quality of tourist facilities and attributes in a destination.

According to Cracoli and Nijkamp, variables including reception and sympathy of residents, artistic and cultural cities, landscape, environment and nature are “basic factors” as they characterize the comparative advantage of a tourist destination. But, the variables including information and tourist services, cultural events (concerts, festivals, art exhibitions, etc.), quality and variety of products in the shops, hotels and other accommodation, level of prices and living costs, and tourist safety are “complementary factors”, because these factors stimulate tourists to have a higher tourist well-being. In Aktas and his friends’ study (2009) carried out in 2007 for satisfaction of tourist visiting Alanya, variables influencing tourists’ overall satisfaction with their holiday were grouped under three titles: destination facilities, accommodation services, and incoming travel agency services. Their research findings indicated that the model accounted for 22% of the variance in German tourists’ satisfaction whereas dimension of accommodation services was the strongest predictor, followed by incoming travel agency services, and destination facilities. For Russian tourists, the model accounted for 35 % of the variance in overall satisfaction, and accommodation services was also the strongest predictor, but followed by destination facilities and incoming travel agency services.

METHODS

In this study, data were collected through a questionnaire designed by the authors (Pawitra and Tan, 2003; Kozak, 2001; Echtner and Ritchie, 1991; Fuchs and Weiermair, 2003). Demographic survey part of the questionnaire is composed of 7 variables. And 15 variables exist on the second part of the questionnaire to measure the degree of tourist satisfaction and the factors, namely hotel, shopping, sales person, services and quality of goods, transportation, security, sea-sand-sun, night life-entertainment, etc. The instrument consisted of these 15 items answered on a five-point Likert with anchors strongly disagree (= 1) and strongly agree (=5). SPSS pc + version 15.0 was used for statistical analysis. Differences in the responses between the groups were tested by the T-Test Analysis.

FINDINGS

Alanya is a resort in Antalya, and it's situated in the 135 km east coast of Antalya Gulf on the Anatolian Peninsula. Following the arrivals of Germans in the late 1950s, Alanya met with tourism (Aktas et al., 2007). Today, Alanya has become one of the most important tourism destinations of Turkey with its 6.5 % share in total, approximately 150.000 beds in 668 hotels and annual tourism receipts exceeding \$1 billion (Table 1).

Year	Tourist Numbers			Alanya's Share (%) in		Alanya's			
	Turkey	Antalya	Alanya	Turkey	Antalya	Bed Capacity	Numbers of Accommodation Firms	Average expenditure per tourist (dollar)	total tourism receipts (dollar)
2002	12.921.981	4.747.328	1.029.350	7,96	21,68	122.663	768	697	717.456.950
2003	13.701.418	4.681.951	988.785	7,21	21,11	127.663	722	706	698.082.210
2004	17.202.996	6.047.168	1.133.616	6,58	18,74	133.361	748	705	799.199.280
2005	20.522.621	6.884.024	1.464.686	7,13	21,27	146.302	790	679	994.521.794
2006	19.275.948	6.011.183	1.357.554	7,04	22,58	147.303	669	651	883.767.654
2007	23.017.081	7.291.356	1.510.000	6,56	20,70	154.199	717	608	918.080.000
2008	26.379.845	8.564.513	1.715.000	6,50	20,02	149.717	668	635	1.089.025.000

Source: Directorate of Antalya Culture and Tourism, 2009; Economics Report of Alanya Chamber of Commerce and Industry, 2008.

Table 1 and Table 2 show that there is a steady increase in tourist number of Alanya, Antalya and Turkey, except 2006 and 2009. Due to global crisis, Antalya met with a decrease of 3,55 % in tourist numbers in 2009. On the other hand, Table 2 shows that Germans and Russians are the largest two groups visited Antalya and Alanya. Contrary to Germans, there is a steady increase in the number of Russians visiting Antalya and Alanya for last five years. But, there is a decrease for both groups in 2009, 0,50% for Germans and 3,23% for Russians.

	2006		2007		2008		2009		Comparison of last two years	
	January-December		January-December		January-December		January-December		2008/2009	
	Tourist number	Perc. %	Tourist number	Perc. %	Tourist number	Perc. %	Tourist number	Perc. %	Change in number	Change as a rate
Germany	2087430	34,73	2208969	30,30	2309762	26,97	2298231	27,82	-11531	-0,50
Russia	1293336	21,52	1817974	24,93	2183302	25,49	2112673	25,58	-70629	-3,23
Netherlands	374163	6,22	388250	5,32	443316	5,18	425966	5,16	-17350	-3,91
Ukraine	244824	4,07	325283	4,46	452978	5,29	344233	4,17	-108745	-24,01
England	182758	3,04	218032	2,99	279093	3,26	319913	3,87	40820	14,63
Austria	194594	3,24	206336	2,83	230955	2,70	246547	2,98	15592	6,75
Poland	99360	1,65	151538	2,08	221471	2,59	219404	2,66	-2067	-0,93
France	149175	2,48	179015	2,46	214274	2,50	218636	2,65	4362	2,04
Sweden	182467	3,04	181349	2,49	233048	2,72	215747	2,61	-17301	-7,42
Belgium	173045	2,88	196601	2,70	217129	2,54	207231	2,51	-9,898	-4,56
Norway	101694	1,69	112663	1,55	174621	2,04	182192	2,21	7571	4,34
Israel	189344	3,15	299169	4,10	330153	3,85	182177	2,21	147976	-44,82
Denmark	126158	2,10	135331	1,86	137604	1,61	144246	1,75	6642	4,83
Others	612835	10,19	1170015	11,93	1136807	13,26	1143203	13,82	6396	0,56
Total	6011183	100	7291356	100	8564513	100	8260399	100	-304114	-3,55

Source: Statistics of Directorate of Antalya Culture and Tourism, 2010.

Table 3 presents characteristics of the sample. First, German tourists are approximately two thirds of the sample (65.8%), and 34.2 percent are Russian tourists. Second, 58.9 percent of the Germans are female, and 41.1 percent are male. For the Russians, males are the largest group (62%), and followed by females (38%). Third, 58.9 percent of the Germans, and 57 percent of the Russians are married. Fourth, about 34 percent of German respondents report completing high school and approximately 33 percent report completing university. About 29 percent of the Germans have a master degree. On the other hand, about 76 percent of Russians respondents report completing university and approximately 18 percent report completing high school. About 4 percent of the Russians have a master degree. Fifth, the respondents who are in 42-53 year-olds make up the largest percentage of German respondents (31.4 percent), followed by those who in 18-29 year-olds (25.3 percent), those who in 30-41 year-olds (22.2 percent), those who in 54-65 year-olds (16.4 percent), and those who in above 66 year olds (4.7 percent). Russian respondents are primarily young, with 40.6 percent falling in the range of 18-29, followed

by those who in 30-41 year-olds (33.4 percent), those who in 42-53 year-olds (18.8 percent), those who in 54-65 year-olds (6.6 percent), and those who in above 66 year olds (0.6 percent). About 74 percent of Russian respondents are under 41 year-olds. Sixth, the respondents who are employee in private-sector make up the largest percentage of German respondents (55.0 percent), followed by retired (11.0 percent), student (9.1 percent), public employee (6.7 percent), the self-employed (5.6 percent), and others (12.5 percent, including unemployed and householder). Russian respondents are composed of public employee (14.4 percent), private-sector employee (26.3 percent), the self-employed (15.3 percent), retired (6.4 percent), student (9.8 percent), and others (27.8 percent, including unemployed and householder).

Table 3: Demographics Findings

Gender	German	Russian	Marital Status	German	Russian
Female	377 (58.9%)	126 (38.0%)	Married	371 (58.9%)	188 (57.0%)
Male	263 (41.1%)	206 (62.0%)	Single	259 (41.1%)	142 (43.0%)
Education	German	Russian	Monthly Personal Income	German	Russian
Elementary	23 (4.0%)	9 (2.7%)	750 Euro and less	65 (14.3%)	147 (46.2%)
High School	199 (34.3%)	59 (17.9%)	751-1500 Euro	157 (34.5%)	115 (36.2%)
University	189 (32.5%)	249 (75.5%)	1501-2250 Euro	139 (30.5%)	37 (11.6%)
Master	170 (29.3%)	13 (3.9%)	2251 Euro and more	94 (20.7%)	19 (6.0%)
Age	German	Russian	Type of Accommodation	German	Russian
18-29	157 (25.3%)	130 (40.6%)	Bed and Breakfast	4 (0.6%)	2 (0.6%)
30-41	138 (22.2%)	107 (33.4%)	Half Board	89 (13.9%)	1 (0.3%)
42-53	195 (31.4%)	60 (18.8%)	Full Board	16 (2.5%)	10 (3.0%)
54-65	102 (16.4%)	21 (6.6%)	All inclusive	527 (82.3%)	317 (95.5)
66 and over	29 (4.7%)	2 (0.6%)	Other	4 (0.6%)	2 (0.6%)
Occupation	German	Russian	Companion	German	Russian
Public Employee	42 (6.7%)	47 (14.4%)	Alone	11 (1.7%)	27 (8.2%)
Private Sector Employee	344 (55.0%)	86 (26.3%)	Couples (wife and husband)	175 (27.6%)	79 (24.1%)
Self-employment	35 (5.6%)	50 (15.3%)	Family (children, husband/wife)	238 (37.5%)	52 (15.9%)
Retired	69 (11.0%)	21 (6.4%)	Children	40 (6.3%)	40 (12.2%)
Student	57 (9.1%)	32 (9.8%)	Friend/classmate	154 (24.3%)	90 (27.4%)
Other (unemployed, householder, etc)	78 (12.5%)	91 (27.8%)	Other (relatives, parents, dating couples)	17 (2.7%)	40 (12.2%)
Visit times	German	Russian	Duration of Holiday	German	Russian
First visit	244 (38.1%)	216 (65.9%)	1-3 days	16 (2.5%)	2 (0.6%)
Second visit	139 (21.7%)	53 (16.2%)	4-7 days	189 (29.4%)	72 (21.6%)
Third visit	76 (11.9%)	28 (8.5%)	8 days and over	437 (68.1%)	259 (77.8%)
Fourth time and more	181 (28.3%)	31 (9.5%)			

Seventh, for the Germans, 38.1 percent of respondents are first-time visitors, followed by who in second visit (21.7 percent), who in third visit (11.9 percent), and who in fourth and more (28.3). But, most Russian respondents are first-time visitors, occupying 65.9 percent of respondents, followed by who in second visit (16.2 percent), who in third visit (8.5 percent), and who in fourth and more (9.5). Eighth, about 34.5 percent of German respondents report having a salary between 750-1500 Euros and approximately 14.3 percent report earning less than 750 Euros in a month, followed by who in 1501-2500 Euros range (30.5 percent), and who earn more than 2250 Euros (20.7 percent). Most Russian respondents report earning less than 750 Euros in a month (46.2 percent) and 36.2 percent of Russian respondents are in 751-1500 Euros range, followed by who in 1501-2250 Euros range (11.6 percent) and who earn more than 2250 Euros (6.0 percent). Ninth, most German respondents report choosing “all-inclusive” from accommodation alternatives (82.3 percent). The next popular alternative is “half board” (13.9 percent) and then “full board” (2.5 percent) for German respondents. “bed and breakfast” alternative is preferred by only 0.6 percent of German respondents. Similarly, “all inclusive” is preferred by most Russian respondents (95.5 percent), followed by “full board” (3.0 percent), “bed and breakfast” (0.6 percent), “half board” (0.3 percent), and others (0.6 percent). Tenth, most German respondents come with their families (37.5 percent). German respondents coming with wife/husband are next (27.6 percent), followed by those coming with classmates or friends (24.3 percent), those coming with children (6.3 percent), those coming alone (1.7 percent), and others (2.7 percent, including the dating couples, relatives, parents). Most Russian respondents come with their friends or classmates (27.4 percent). Russian respondents coming with wife/husband are next (24.1), followed by those coming with their families (15.9 percent), those coming with children (12.2 percent), those coming alone (8.2 percent), and others (12.2 percent, including the dating couples, relatives, parents).

Table 4: Comparison of German and Russian Tourist Information Sources for Alanya: Chi-Square Test Results

Getting Information About Alanya	German	Russian	Pearson Chi-Square	Sig.
Internet	323 (50,0%)	113 (33,6%)	23,991	,000*
TV-Radio	12 (1,9%)	5 (1,5%)	,177	,446
Journal-Magazine	32 (5,0%)	8 (2,4%)	3,744	,035*
Travel Agency	346 (53,6%)	206 (61,3%)	5,392	,012*
Friend's Advice	152 (23,5%)	113 (33,6%)	11,447	,001*
Others	48 (7,4%)	19 (5,7%)	1,096	,181

According to the Chi-square test results seen from Table 4, there are significant differences between the information sources used by German and Russian tourists for their decisions to visit Alanya. Chi-square test results indicate that German tourists use internet and journal-magazines more frequently than Russian tourists for vacation decisions: internet, with a percentage of 50.0 for German tourists and 33.6 for Russian tourists; and journals-magazines, with a percentage of 5.0 for German tourists and 2.4 for Russian tourists. Test results indicate that Russian tourists use travel agency and friend's advice more frequently than German tourists for vacation decisions: travel agency, with a percentage of 61.3 for Russian tourists and 53.6 for German tourists; friend's advice, with a percentage of 33.6 for Russian tourists and 23.5 for German tourists. No significant difference in tv-radio preferences of Russian and German tourists for vacation decisions is found.

Table 5. Comparison of German and Russian Tourist Expenditure Items in Alanya: T-Test Results

Expenditures	Nationality	n	Mean	t	p
Food & Beverage	German	646	2,786	6,549	,000*
	Russian	336	2,267		
Excursions	German	646	3,140	-5,473	,000*
	Russian	336	3,604		
City transportation	German	646	2,593	-,791	,429
	Russian	336	2,655		
Entertainment	German	646	2,134	-9,399	,000*
	Russian	336	2,863		
Textile goods	German	646	3,335	2,902	,004*
	Russian	336	3,091		
Jewellery	German	646	2,305	3,455	,001*
	Russian	336	2,039		
Souvenir	German	646	2,862	-6,389	,000*
	Russian	336	3,380		
Others	German	646	2,870	-,832	,406
	Russian	336	2,909		

As seen from Table 5, t-test results indicate that there are significant differences in the expenditure preferences of German and Russian tourists. According to the test results, Russian tourists spend more than German tourists for three items. These are: excursions, with a mean of 3.60 for Russian tourists and 3.14 for German tourists; entertainment, with a mean of 2.86 for Russian tourists and 2.13 for German tourists; souvenir, with a mean of 3.38 for Russian tourists and 2.86 for German tourists. On the other hand, test results indicate that German tourists spend more than Russian tourists for other three items: food and beverage, with a mean of 2.78 for German tourists and 2.26 for Russian tourists; textile goods, with a mean of 3.33 for German tourists and 3.09 for Russian tourists; jewellery, with a mean of 2.30 for German tourists and 2.03 for Russian tourists. There is no significant difference between the expenditures of the two groups for city transportation.

Table 6. Comparison of German and Russian Tourist Expenditures in Alanya: Chi-Square Test Results

Amount of expenditure in Alanya	German	Russian
None	22 (%3,6)	5 (%1,6)
1-250 Euro	246 (%40,5)	95 (%29,9)
251-500 Euro	181 (%29,8)	86 (%27,0)
501-750 Euro	72 (%11,8)	57 (%17,9)
751-1000 Euro	56 (%9,2)	33 (%10,4)
1001 Euro and more	31 (%5,1)	42 (%13,2)
Pearson Chi-Square	33,317	
Sig.	,000	

Chi-Square test results do show a significant difference in the amount of money that German and Russian tourist spend in Alanya (Table 6). According to the test results, Russian tourists spend more than German tourists as a percentage in three expenditure ranges. These are: 501-750 Euros, with a percentage of 17.9 for the Russians and 11.8 for the Germans; 751-1000 Euros, with a percentage of 10.4 for the Russians and 9.2 for the Germans; 1001 Euros and more, with a percentage of 13.2 for the Russians and 5.1 for the Germans. Test results indicate that German tourists spend more than Russian tourists as a percentage in first two expenditure ranges: 1-250 Euros, with a percentage of 40.5 for the Germans and 29.9 for the Russian,; 251-500 Euros, with a percentage of 29.8 for the Germans and 27.0 for the Russians. The percentage of the tourists who do not spend any Euros in Alanya is 1.6 for the Russians and 3.6 for the Germans.

Table 7. Comparison of German and Russian Tourist Evaluations with Reasons for Visiting Alanya: T-Test Results (1=strongly disagree, 5=strongly agree)

Variable	Nationality	n	Mean	t	p
Sea-sand-sun	German	646	4,535	2,605	,009*
	Russian	336	4,359		
Cultural and heritage attraction	German	646	3,222	1,531	,126
	Russian	336	3,108		
Reasonable price range	German	646	4,038	7,078	,000*
	Russian	336	3,571		
Lively nightlife	German	646	2,404	-2,762	,006*
	Russian	336	2,617		
Safety of destination	German	646	4,094	5,746	,000*
	Russian	336	3,706		
Other	German	646	3,847	1,301	,194
	Russian	336	3,802		

T-test results, seen from Table 7, indicate that there are significant differences between the evaluations of Russian and German tourists with determinative variables in their Alanya preferences. Three out of six variables are evaluated as significantly more effective in Alanya preferences by German tourists than by Russian tourists. These variables are: sea-sand-sun, with a mean of 4.53 by German tourists and 4.35 by Russian tourists; reasonable price range, with a mean of 4.03 by German tourists, compared to 3.57 by Russian tourists; safety of destination, with a mean of 4.09 for German tourists, and 3.70 for Russian tourists. Additionally, t-test results indicate that Russian tourists find only one variable to be more effective in Alanya preferences than German tourists. This is lively nightlife, which is given a mean of 2.61 by Russian tourists, as opposed to 2.40 by German tourists. No significant difference between the evaluations of the two groups with the effective role of Alanya's cultural and heritage attraction is found.

Table 8. Comparison of German and Russian Tourist Satisfaction with Alanya Destination: T-Test Results (1=dissatisfied, 5=satisfied)

Variable	Nationality	n	Mean	t	p
Cheapness of city	German	646	3,4175	4,968	,000*
	Russian	336	3,0747		
Safety of city	German	646	3,7454	-,667	,505
	Russian	336	3,7890		
Sufficient recreation facilities	German	646	3,7706	-3,626	,000*
	Russian	336	4,0014		
Cleanliness of city	German	646	3,5465	-4,594	,000*
	Russian	336	3,8556		
Modernity of city	German	646	3,6139	-2,327	,020*
	Russian	336	3,7630		
Sufficient shopping opportunities	German	646	4,1721	,054	,957
	Russian	336	4,1688		
People's hospitality	German	646	4,1784	1,929	,054
	Russian	336	4,0452		
Transportation facilities	German	646	4,2237	1,556	,120
	Russian	336	4,1271		

T-test results, seen from Table 8, suggest that Russian tourists are more satisfied than German tourists with three variables of Alanya facilities: sufficient recreation facilities, with a mean of 4.0 by Russian tourists and 3.77 by German tourists; cleanliness of city, with a mean of 3.85 by Russian tourists and 3.54 by German tourists; modernity of city, with a mean of 3.76 by Russian tourists and 3.61 by German tourists. T-test results, placed in table 8, indicate that German tourists are more satisfied than Russian tourists with the cheapness of the city, with a mean of 3.41 by German tourists and 3.07 by Russian tourists. On the other hand, no significant difference between the satisfactions of the two groups with other four variables; safety of city, sufficient shopping opportunities, people's hospitality, and transportation facilities of Alanya destination is found.

Table 9. Comparison of German and Russian Tourist Satisfaction with Accommodation Services: T-Test Results (1=dissatisfied, 5=satisfied)

Variable	Nationality	n	Mean	t	p
Cleanliness of Hotel	German	646	4,1250	-4,734	,000*
	Russian	336	4,4070		
Hospitality of the Staff	German	646	4,3667	-,949	,343
	Russian	336	4,4265		
Service quality	German	646	4,2390	1,945	,052
	Russian	336	4,1092		
Comfortableness of Hotel	German	646	3,9476	-5,082	,000*
	Russian	336	4,2661		
Quality of Food and Beverage	German	646	4,1373	2,046	,041*
	Russian	336	3,9938		
Animation-sports facilities	German	646	3,3857	-7,087	,000*
	Russian	336	3,9468		

T-test results indicate that Russian tourists are more satisfied than German tourists with three variables of accommodation services (Table 9): cleanliness of hotel, with a mean 4.12 by German tourists, as opposed to 4.40 by Russian tourists; comfortableness of hotel, with a mean of 3.94 by German tourists and 4.26 by Russian tourists; animation-sports facilities, with a mean of 3.38 by German tourists and 3.94 by Russian tourists. As seen from Table 9, German tourists are more satisfied than Russian tourists with the quality of food and beverage, with a mean of 4.13 by German tourists and 3.99 by Russian tourists. On the other hand, no significant difference in service quality and staff hospitality satisfactions of the two groups is found. Moreover, T-test results do not indicate a significant difference between the evaluations of Russian and German tourists with other variables.

Table 10. Comparison of German and Russian Tourist Satisfaction with Holiday: T-Test Results (1=dissatisfied, 5=satisfied)

Variable	Nationality	n	Mean	T	p
Overall holiday satisfaction	German	646	4,4165	-2,245	,025*
	Russian	336	4,5461		
Intent to recommend Alanya for holiday	German	646	4,4038	-,177	,860
	Russian	336	4,4145		
Intent to come again	German	646	4,2377	-,294	,769
	Russian	336	4,2584		
Intent to live in Alanya	German	646	2,4709	-1,467	,143
	Russian	336	2,6028		

T-test results indicate that Russian tourists are more satisfied than German tourists with holiday satisfaction, with a mean of 4.54 by the Russians, compared to 4.41 by the Germans (Table 10). T-test results do not indicate a significant difference between the evaluations of Russian and German tourists with other variables: intent to recommend Alanya for holiday, with a mean of 4.40 for the Germans and 4.41 for the Russians; and intent to come again, with a mean of 4.23 for the Germans and 4.25 for the Russians; and intent to live in Alanya, with a mean of 2.47 for the Germans and 2.60 for the Russians. Test results indicate that both German and Russian tourists are more satisfied with their holiday in Alanya, and they want to recommend this town to their friends/relatives, and to visit Alanya again. But, according to the test results, German and Russian tourists are not so eager to live in Alanya.

CONCLUSION

Germans and Russians are the largest two groups visited Alanya. There is a steady increase in the number of Russians visiting Alanya for last five years. But, there is a small decrease in number of both groups in 2009 due to Global crisis.

On the other hand, research results indicate that some differences exist between the preferences, perceptions and evaluations of German and Russian tourists about Alanya. For example, German tourists use internet and journal-magazines more frequently than Russian tourists for vacation decisions. But, Russian tourists frequently use travel agency and friend's advice for their vacation decisions for Alanya. On the other hand, research results indicate that Russian tourists spend more for excursions, entertainment, and souvenir, whereas German tourists spend more for food and beverage, textile goods and jewellery. Sea-sand-sun, reasonable price range and safety of destination are first three critical elements for Germans to prefer Alanya. Lively nightlife of Alanya is a determinative element for Russians. These are similar to the findings of Aktas and his friends' research (2009) applied in Alanya in 2007.

Also research results indicate that Russian tourists are more satisfied than German tourists with Alanya's recreation facilities, cleanliness and modernity. But, German tourists are more satisfied than Russian tourists with the cheapness of the city. Furthermore, Russian tourists are more satisfied than German tourists with cleanliness, comfortableness, and animation-sports facilities of hotels. But, German tourists were more satisfied than Russian tourists with the quality of food and beverage. According to the research results, Russian tourists were more satisfied than German tourists with overall holiday satisfaction. As a result, these two groups are half of the tourist potential of Alanya and similar researches should be implemented periodically to determine their satisfaction to create a sustainable competitive advantage in tourism industry.

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DESTINATION COMPETITIVENESS OF TURKEY AT GLOBAL TOURISM PLATFORM

Muhsin Halis
Didar Sari
Sakarya University, Turkey

ABSTRACT

Competitiveness is a significant factor for organizations at sustaining their presence nowadays. As one of the most rapid developing sectors in the world; tourism is living competitiveness deeply at -micro level- on the firms operating in the sector, and at -macro level-, on destinations as well. Coping with the destination competitiveness, various competitiveness models has been developed. The aim of this study is to analyse Turkey's destination competitiveness considering those models and Travel & Tourism Competitiveness Index (TTCI). There're various strengths of Turkey at international tourism platform. On the other hand, for sustainable destination competitiveness, the weaknesses and threats related with Turkey's tourism industry should be overcome.

Keywords: *Tourism, Competitiveness, Destination Competitiveness.*

INTRODUCTION

"In the present global and rapidly changing market the capacity to compete lies at the heart of national and industry efforts aimed to attract national and international visitors (UNWTO, 2010)." Hence, by the last two decades, various studies at tourism literature formed about competition strategies that provide holding in the sector by branding. However, The Diamond Model which developed by Michael Porter and the following enhanced models like Crouch and Ritchie's Conceptual Competitiveness Model, and Dwyer and Kim's Integrated Model are the most accepted basic models for destination competitive strategies.

The aim of this study is to identify the ability of Turkey's competitiveness at tourism sector in which competition experiencing intensively. From this point of view, in the literature part, first; the terms of competitiveness and destination competitiveness defined and the importance of them in tourism sector investigated. Afterwards, by explaining the main destination competition models, a general look to the mechanism has taken. In the second part of our study, Turkey's competitiveness in global tourism analyzed via the results of Travel & Tourism Competitiveness Report 2009, in the light of destination competition models. By the results, it's aiming to benchmark Turkey against other countries and thus, help government at identifying the sustainable tourism planning and politics for Turkey.

DEFINING DESTINATION COMPETITIVENESS

The Term of Competitiveness

Competitiveness, is a complex notion that has not been defined clearly yet. The reason in this might be the whole range of factors account for it. Having a relative and multi-dimensional structure, various definitions consists at the literature for competitiveness. (Spence and Hazard, 1988)

In general concept, competitiveness will be held by micro and macro forms. In micro version it's evaluating at firm level. "In order to be competitive any organizations must provide products and services for which customers or clients are willing a fair return or price (Dwyer and Kim, 2003a:372)". In the long run, it'll be measured by the ability of stay in business, protecting the investments, to earn a return on them and to ensure jobs for the future.

When we look from the macro perspective, competitiveness will be held at sectoral or national platform. OECD, defines competitiveness at trade, as a "measure of a country's advantage or disadvantage in selling its products in international markets (2005)" while WTO defining in economics perspective, "as the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term (2000)."

Neither micro nor macro forms, a firm may not be regarded as competitive unless it's able to sustain advantages it possesses over the long-term (Ritchie and Crouch, 2003:33).

Destination Competitiveness

“Competitiveness is a general concept that encompasses price differentials coupled with exchange rate movements, productivity levels of various components of the tourist industry and qualitative factors affecting the attractiveness or otherwise of a destination” (Dwyer et al., 2000:9).

“What makes a tourism destination truly competitive is its ability to increase tourism expenditure, to increasingly attract visitors while providing them with satisfying, memorable experiences, and to do so in a profitable way, while enhancing the well-being of destination residents and preserving the natural capital of the destination for future generations” (Ritchie and Crouch, 2003:2).

Bahar and Kozak state that, destination competitiveness will come through by development strategies which cover marketing activities including image, quality, brand, service etc., destination management and sustainable tourism (2005:114). It's certain that competitiveness and it's advantages would be a temporary success without a sustainable concept.

Dwyer and Kim, make relations of “comparative advantages of a tourism destination with inherited or endowed resources such as climate, scenery, flora, fauna, etc., while competitive advantage would relate to such created items as the tourism infrastructure (hotels, attractions, transport network), festivals and events, the quality of management, skills of workers, government policy and so on. In the context of tourism, both comparative advantage and competitive advantage are important and a model of destination competitiveness must recognize this (2003a:372).”

COMPETITIVE DESTINATION MODELS IN TOURISM SECTOR

“In the tourism context, the multiplicity of industries involved in creating and sustaining destinations requires the development of a competitiveness model that examines the extent of cooperation needed for the future of competitiveness. Consequently, competitiveness is defined here as the destination's ability to create and integrate value-added products that sustain its resources while maintaining market position relative to competitors” (Hassan, 2000:239).

Porter's Diamond Model

The diversity of the components of tourism sector, causes differs at competitive strategies according to the general competition strategies but it will be very useful to analyze Porter's Diamond Model which is the first model on developing competitiveness strategies. The structure of the model is very suitable for destination competitiveness, too.

Porter, who claimed the increment of the competing force of organizations, will take the ability of international competing force; connected the national competitive advantage to the success and harmony of 4 main factors. (Porter, 1990) These factors which can be listed as 'Factor Conditions', 'Demand Conditions', 'Related and Supporting Industries', 'Firm strategy, structure and rivalry' will create the competitive force that aimed in Diamond Model, beside the support of the role of 'Chance' and 'Government'.

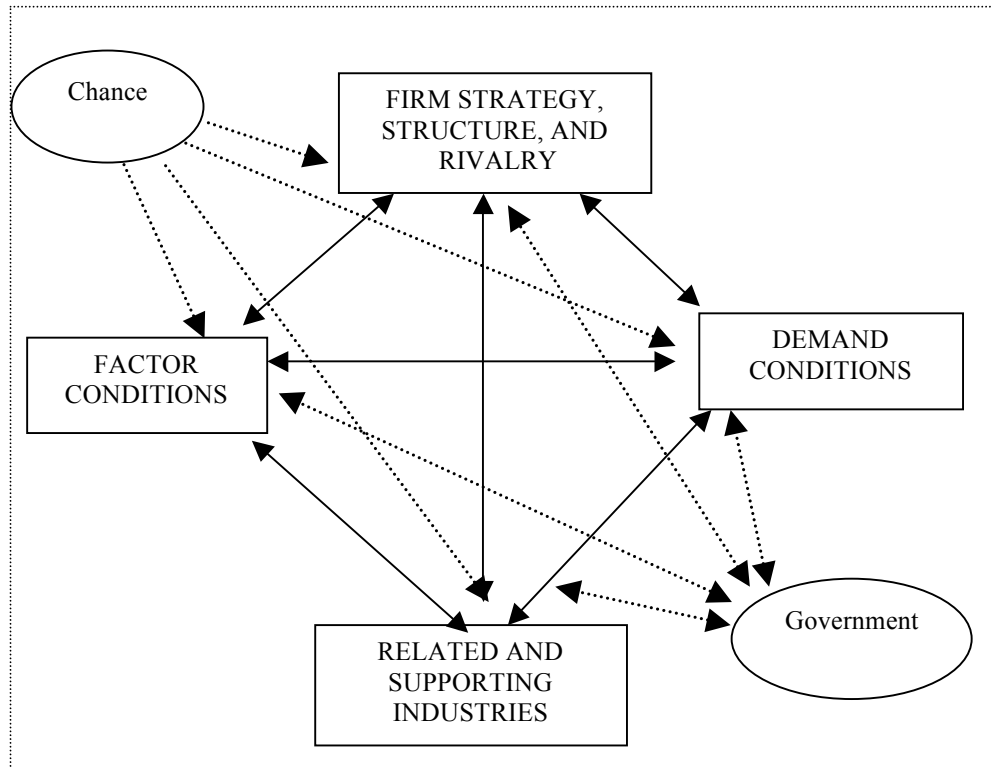
The Complete System of Porter's Diamond Model

In the study of 'The Competitive Advantage of Nations', Porter defined the Factor Conditions as “The nation's positions in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.” Beside these, for tourism sector, the attractiveness of physical and historical tourism sources, scientific and technological infrastructure conditions, capital investment attraction level etc. can be added as 'factor conditions'.

Demand conditions defined as “The nature of home demand for the industry's product or service.”

Related and supporting industries are defined as “The presence or absence in the nation of supplier industries and related industries that are internationally competitive.” Beside the core organs of tourism sector which are hospitality managements, travel agencies & tour operators, food & beverage managements, it has a vital importance working coordinately with the contributing businesses like recreation firms, gift shops, manufacturing sector etc.

Figure I: Porter's Diamond Model



Porter, M. (1990:127)

Porter defined the 'Firm strategy, structure, and rivalry' as "The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry" (Porter, 1990:71). The ability to create policies and strategies for competing is differs considerably according to the structure of the management and market.

Supporting these elements, there are governments and chance factors at the model, which will be illustrated with the incentives, economy and legal politics, bureaucracies, etc. in one side, and natural and economic crisis, devaluation, wars etc. in the other side.

Dwyer and Kim's Integrated Model of Destination Competitiveness

Dwyer and Kim's integrated model bring together the national and firm competitiveness with the main elements of destination competitiveness (2003b:58). Correlating the comparative and competitive advantage factors, the integrated competitiveness model is a comprehensive study for that.

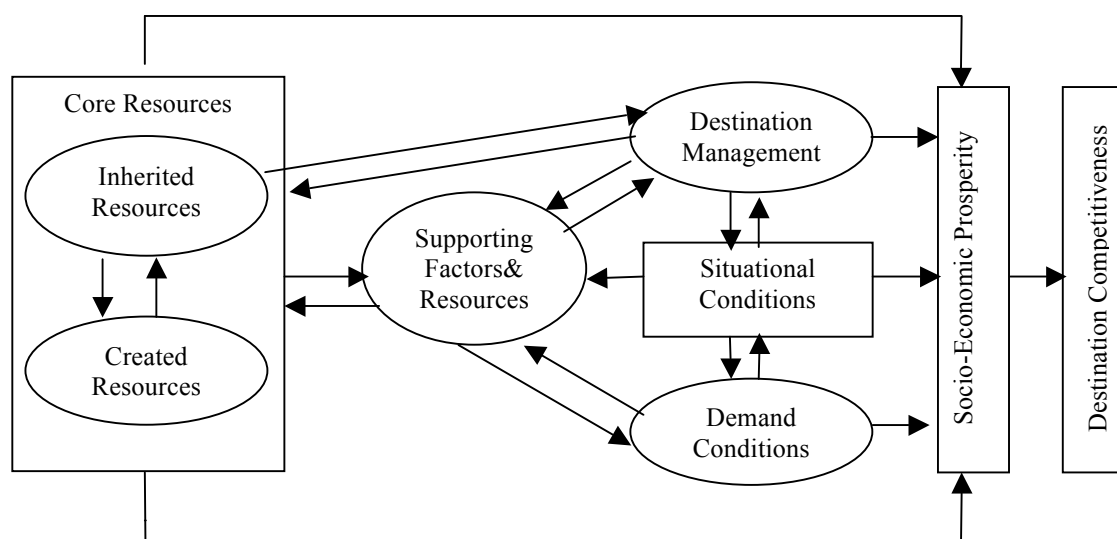
Authors underlining the importance of core resources for tourism sector by dividing them two groups as 'Inherited Resources' and 'Created Resources' in the study. Here, inherited resources defined as natural (lakes, beaches, mountains, etc.) or cultural/heritage (cuisine, handicrafts, language etc.) while created resources are including attributes such as tourism infrastructure, the range of available activities etc.

Supporting factors and resources have a vital importance in destination competitiveness. They're sampled in the model general infrastructure, quality of service, accessibility of destination etc. The bi-directional flow from supporting factors & resources to core resources indicates that core resources are insufficient to provide destination competitiveness alone.

In the model, destination management factor which "enhance the appeal of the core resources and attractors, strengthen the quality and effectiveness of the supporting factors and resources, and adapt best to constraints or opportunities imposed or presented by the qualifying and amplifying determinants (Ritchie&Crouch,2003:73)", will be undertaken by private or public sector.

Development of national tourism strategies, national manpower programs etc. are the main plans implementing by public sector, while the private sector is performing by tourism associations, industry training programs etc.

Figure II: Integrated Model of Destination Competitiveness



Dwyer, L. and Kim, C. (2003b:58)

Demand conditions comprise awareness, perception and preferences which are the three main elements of tourism demand and situational conditions are forces in wider external environment effecting destination competitiveness by economical, technological, environmental etc. ways. Therefore, the influence of situational conditions to demand conditions and destination management is apparent by bilateral arrows.

By socio-economic prosperity, destination competitiveness shown as an outcome with various factors influencing it.

Crouch and Ritchie’s Conceptual Competitiveness Model

Crouch and Ritchie, who’ve developed most comprehensive model on destination competitiveness, studying at this field since 1992, by illustrating Smith’s and Ricardo’s comparative advantage theories, Porter’s competitive advantage and specific destination competitiveness factors (Crouch, 2007).

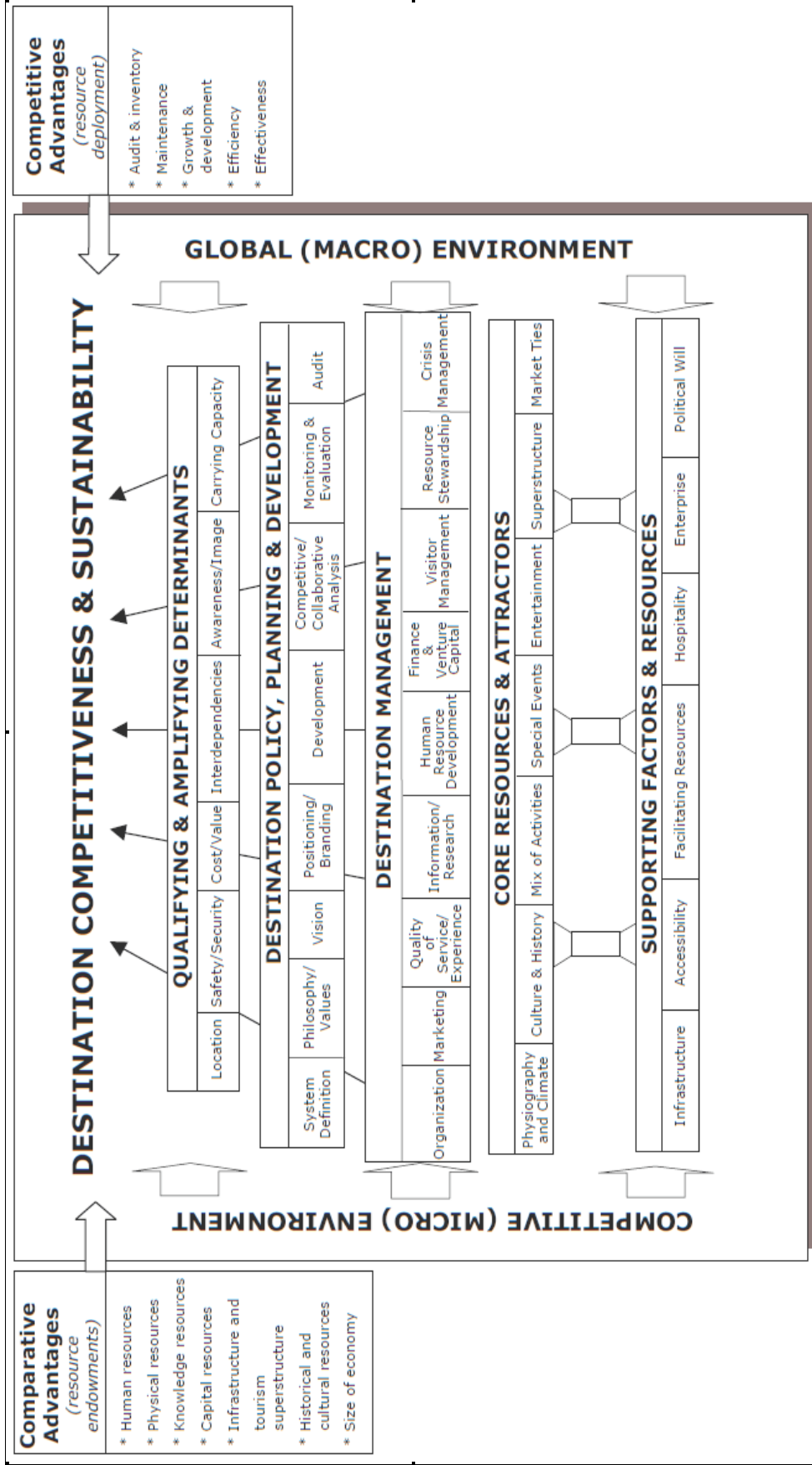
According to their model, competitiveness based on, destination’s resource endowments what’re comparative advantages and, the capacity to deploy resource that are comparative advantages; under the impacts of global macro-environmental forces like global economy, terrorism etc. and competitive micro-environmental circumstances effecting the destination’s tourism system’s mechanism.

As it can be understood in the figure below, the model which’s clustered into 5 groups. ‘Core Resources and Attractors’ defined at the model as the primary elements of destination appeal. The sub-components of this group have the most important role at tourist’s preference of a destination.

Forming tourism industry in a destination requires ‘Supporting Factors & Resources’. In the long term, making a successful plan to ensure a proper balance between tourism growth and development of infrastructure and other facilitating resources has a vital importance.

Tourism has a multi-directional sector with its effects to other industries. Providing a sustainable development and competitiveness, it’s an absolute necessity making a well organized ‘Destination Policy, Planning & Development’, related to social, economical, cultural etc. goals.

Below, by **Figure III, Conceptual Competitiveness Model** is shown.



Crouch, G. (2007:3)

Representing the most direct mechanism to destination management & sustainability, the 4th group (Destination Management) has the factors that are implementing destination policy and planning framework have done before. These factors are aiming to strengthen the quality and effectiveness of the destination with organizational structure, marketing, crisis management etc.

In the 5th group, Qualifying & Amplifying Determinants', there're various factors effecting to the destination's competitiveness independently from other groups. The sub-components of this group might be positive or negative effects on tourist's preferences of destination choices.

By these groups, destination competitiveness depended on 36 main factors.

"Of the 36 destination competitiveness attributes examined, the ten most important were found to be (Crouch, 2007: v)"

- Physiographic and Climate
- Market Ties
- Culture and History
- Tourism Superstructure
- Safety and Security
- Cost/Value
- Accessibility
- Awareness/Image
- Location
- Infrastructure

ANALYSE OF TURKEY'S COMPETITIVENESS IN GLOBAL TOURISM

As a sector which has a high elasticity of demand, effective competitiveness in tourism is a vital factor for sustaining it. Beside this, due to its location, Turkey is located in very competitive tourism geography. In order to increase its tourism revenues, the inadequacies and advantages of Turkey's tourism industry should be well defined.

Travel & Tourism Competitiveness Index developed by World Economic Forum, and Ritchie & Crouch's Conceptual Competitiveness Model which's one of the most comprehensive, Turkey's destination competitiveness in global platform is handled.

Data of Turkey's Domestic Tourism and It's Location at the Global Platform

Tourism industry has a vital importance for Turkey's national economy. In 2009, tourism revenue declared as \$ 21.249,3 million, while the first quarter of 2010, it was \$ 2,414 million. Because of the global economic crisis tourism revenues rate of change occurred -3,2 % at 2009/2008, and -2,2 % for the first quarter of 2010/2009. However, incoming tourists at 2009 was 27.077,114. It's rate of change occurred as 2,81 % at 2009/2008 period while in the first quarter of 2010/2009 3,2 % for departing visitors (Ministry of Culture and Tourism, 2010 and Turkish Statistical Institute).

At international tourist arrivals of 2008, Turkey ranked at 8th, and 9th for the receipts. The most significant point is that Turkey's rank at international tourist arrivals change% occurred 12% for 2008/2007 while the leading countries changing rates occurring at minus levels (UNWTO, 2010).

Travel and Tourism Competitiveness Index

World Economic Forum's Industry partnership program for Aviation, Travel and Tourism sector has been developed The Travel & Tourism Competitiveness Index (TTCI), which's aiming to measure the factors and policies that make it attractive to develop the T&T sector in different countries. TTCI is based on 3 broad categories of variables that facilitate or drive T&T competitiveness (WEF, 2009).

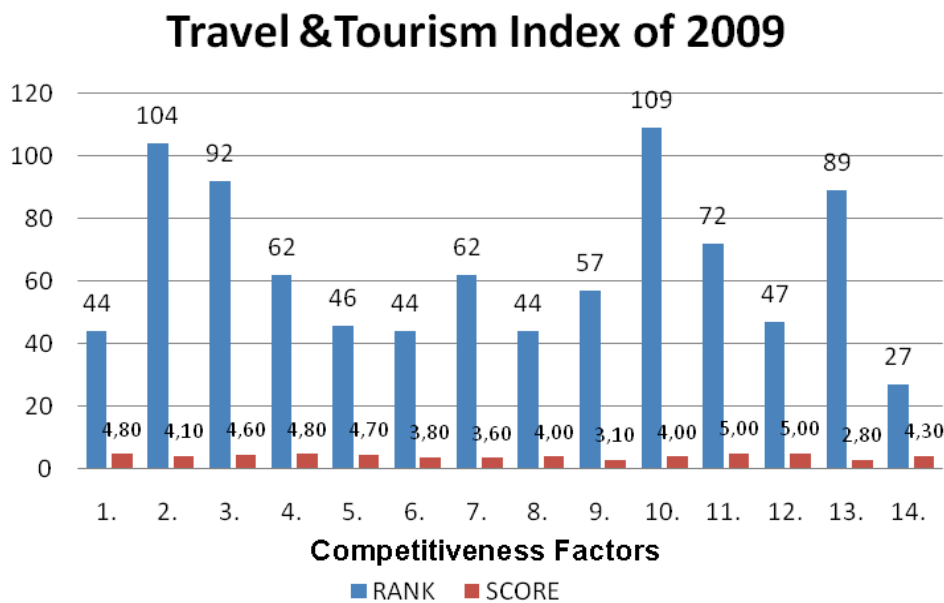
1. *T&T regulatory framework subindex*; which captures those elements that are policy related and generally under the purview of the government
2. *T&T business environment and infrastructure subindex*, which captures elements of the business environment
3. *T&T human, cultural and natural resources subindex*, captures the softer human, cultural and natural elements of each country's resource endowments.

Each of these factors composed in turn by a number of pillars effecting T&T competitiveness showing below:

1. Policy rules and regulation
2. Environmental sustainability
3. Safety and security

4. Health and hygiene
5. Prioritization of Travel & Tourism
6. Air transport infrastructure
7. Ground transport infrastructure
8. Tourism infrastructure
9. ICT infrastructure
10. Price competitiveness in the T&T industry
11. Human resources
12. Affinity for Travel & Tourism
13. Natural resources
14. Cultural resources

According to TTCI competitiveness factors, Turkey's competitiveness at global arena in 2009, can be shown below via the graphics. 14 factors stated above, are taking place in the horizontal axis of the graphics.



Composed via WEF, "The Travel & Tourism Competitiveness Report 2009, *Turkey"

TTCI, ranked **133** destinations with scores ranging from **1-7**.

The first three countries in this ranking have been the same at 2008 and 2009. Switzerland, Austria and Germany are the leading countries in destination competitiveness at TTCI.

According to 2009 index, Turkey is ranked 31st in Europe and 56th destination in the global arena. The strengths of the Turkey can be considered as its rich cultural heritage with 11 of World Heritage Cultural Sites, several international fairs, exhibitions and strong creative industries.

On the other hand, safety and security problems including terrorism, road safety and concerns about crime and violence, are Turkey's most important weakness in the competitiveness (92nd). Health and hygiene is also a comparative weakness (62nd). The inadequacies at ground transport infrastructure especially in railways and ports are weakens of Turkey in competition.

One of the most important threats for sustainable tourism competitiveness in Turkey is the protection of natural resources. Its ranked 104th in environmental sustainability.

Thus, Turkey's scale at T&T Regulatory framework is 4,6/7; while T&T Business Environment and Infrastructure's is 3,7/7 and T&T Human, cultural and natural resources group is 4,3/7 (WEF, 2009).

CONCLUSION

The results of this paper shows that Turkey has strengths beside weaknesses, competing at international tourism arena. It's rich cultural resources are one of the most important advantages while security & safety problems, hygiene & health, infrastructure inadequacies are the leading lack in destination competitiveness. The threats at protection of natural environment has a vital importance for Turkey, where natur-based alternative tourism developing rapidly.

According to Ritchie & Crouch's Competitiveness Model, Turkey's safety and security problems will be held in 'Qualifying & Amplifying Determinants' level, what've direct effects negatively to the destination competitiveness. Ground transport infrastructure inadequacies are at infrastructure group of 'Supporting Factors & Resources', which requires a good planning to ensure the balance between tourism growth and development in the long term. These are the comparative disadvantages of Turkey at global platform with its rich cultural heritages constituting a significant advantage on the other hand.

Through competitiveness index and models, taking precautions immediately at micro and macro levels is so significant for a sustainable development of Turkey's one of the leading industry.

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INSTITUTIONAL STRATEGIC CONSCIOUSNESS AND ITS REFLECTIONS: A RESEARCH ON QUALIFIED HOTELS IN ISTANBUL

Muhsin HALIS
Mehmet SARIISIK
Oğuz TURKAY

Sakarya University, Turkey

ABSTRACT

Strategic consciousness is a cognitive skill that enable firm to develop a clear vision and a system of thought based on inquiry, research, transforming of values, increasing of mental capabilities etc. The success of strategic planning is also related to this phenomenon. In this study, strategic consciousnesses of hotels' managers have been measured related to three factors were consist of reframing, reflecting and system thinking. Consciousness construct was found to be formed by two factors in hotels; reframing & reflecting, and system thinking. These two factors have influences the contents of strategic action plan, stakeholder analysis and participation, existence of action plan, and performance measurement. Two factors of consciousness have been influenced especially in the variation of stakeholder analysis & participation. Stakeholder analysis and participation factor also determined the level of customer satisfaction significantly.

Keywords: strategic consciousness, reframing, reflecting, system thinking, hotel industry, Istanbul.

INTRODUCTION

In last two decades, many reasons such as competitive pressures, technological developments, environmental changes etc. have affected organizations about making healthy decisions for their future. By the way they are also faced such difficulties to make comprehensive decisions. For many years, researchers have attempted to define "strategy" and tried to model variables, activities and relations were called "strategic". As it is known, strategy is a comprehensive and integrated plan that is made for providing competitive advantages and it is designated to reach desired long terms goals and is conducted by the executive management. Chandler (1962) took in hand the concept of strategy in his early work, "Strategy and Structure" as the process of determining the organization's long-term goals and objectives as well as the process of adopting a course of action and allocating sufficient resources. Andrews (1980) defined its as the pattern of decisions in a company that determined and revealed its objectives, purposes or goals, produces the principal policies and planed for achieving those goals, and defined the range of businesses the company is to pursue. To determine how strategies do form in organization, Mintzberg and Waters (1985) identified different strategies planned or unplanned. Researchers argued that strategy was more a pattern of action resulting from whatever intended or unintended strategies were realized, thus concept of strategy means more than a plan of action. The action must be supported by awareness (Pencarelli et al., 2008), thinking (Bonn, 2005), orientation (Morgan and Strong, 2003), and consciousness (Naktiyok et al., 2009) in order to respond the change. Strategic management applications and related interventions is required cognitive support anyway named awareness, orientation, or consciousness. Although the conceptualization had been done diversely, these notions discuss the cognitive roots of strategic planning. Consciousness was thought as more extensive and provided a more holistic view option to analyze these roots.

In this study the concept of strategic consciousness have been investigated and defined. Previous studies suggested that strategic consciousness influenced strategic planning process (see Naktiyok et al., 2009). But there is little empirical studies conducted on the determinants of strategic management in hospitality industry, especially depend on consciousness. Thus, the purpose of the study is to assess the effects of strategic consciousness in hospitality industry, and to investigate its influences on strategic planning. The effects of strategic planning on customer satisfaction level are also aimed to discuss in order to create a model conscious-implementation-output flow for hotels.

STRATEGIC CONSCIOUSNESS AND ITS REFLECTIONS

Among its many descriptions, consciousness can be defined as “sense of awareness of self and of the environment” basically (Webster’s Online Dictionary, 2010). Concept is depicted as the “ability to know” something without the use of rational thought processes or direct cognition. Another description is the capacity to know without words, to perceive the truth without justification or cognitive interpretation, reasoning or explanation. It operates knowing that past, present and future is simultaneous. Consciousness can synthesize ideas and choices instantly. It enhances analytic consideration and put forward insights as to timing, specific strategy and innovation. Consciousness is the key to perceiving and receiving unlimited possibilities and to provide new opportunities. Therefore, it indicates the ability without rational thought in a specific time, but it consists of rationality for ever. To be aware of the past, present and future are provided to know deeply and extensively.

Consciousness can be evaluated as one mental function that accompanies all mental events (Webster’s Online Dictionary, 2010). Thus, strategic consciousness means the mental capability of a firm that collects and re-activates all mental functions.

Strategic is about knowing what it would take to create a vision into reality and making this work for you. In the context of strategic consciousness, being strategic is more about inquiry, to argue from analogies, reframing of experiences and knowledge gained, continuous monitoring, being adaptable, responsive to the unexpected and ever ready to receive opportunity. It is a state of being, not just a planning document. Being strategic is less about planning ahead and more about continuous monitoring of the environment, rapid response and fast adaptation. Being strategic then means being clear about the organization's vision and mission, being aware of the organization's resources, and incorporating both into being consciously responsive to a dynamic environment. Being strategic is vital for success in business today.

The ability to think and has conscious strategically is critical to manage complexity and to cope with fast change in the environment. Strategic behavior involves skillful planning and management; it implies forethought, an understanding of the interdependence of actions within a social system, and a purposeful coordination of resources. Leaders who engage in strategic consciousness consider the interplay between actions and responses in light of a set of purposes, purposes that may be explicitly stated or implicit in a principal's understanding of a school and its needs (Hallinger and McCary, 1990).

Strategic consciousness allows people to let go of old identities and the need to control, instead of making choices to be the contribution to the advancement. Strategic consciousness has let employees to take in a wide range of information and perceive things in a broader context. To lead a successful organization, business strategy needs to be together with a consciousness of how different factors in the wider environment and the organization fit together. Pure consciousness alone, however, does not lead to business success. Thus, to be more successful consciousness must be supported effective strategic planning processes, and mutual interaction between them must be developed. Therefore, to explain of business success (customer satisfaction level was discussed in this study) it must be focused on consciousness as cognitive progress and its effects on strategic planning level. The main estimation is “strategic consciousness enhances the level of strategic planning” and “strategic planning effectiveness determines the level of customer satisfaction”. According to Naktiyok et al. (2009) strategic consciousness is a structure which consists reframing, reflecting and system thinking. By this view, these three variables have been tested as predictors of strategic consciousness.

Reframing

Reframing is a cognitive skill which to be enable to see and evaluate events and facts from different perspectives (Naktiyok et al. 2005). This is that to be aware of possible deficiency of him/her own way. Pisapia et al. (2005) defined the term as ability to switch attention across multiple perspectives, frames, mental models and paradigms in order to generate new insights and options for actions. Researchers emphasized four abilities used in reframing:

1. To suspend judgment while appropriate information is gathered.
2. To be able to identify and understand mental models, paradigms and frameworks those are being used to frame a problem, situation or issue.
3. To be able to use different mental models, paradigms and frameworks to understand one situation
4. To review and reform one’s own and others’ mental models.

Reflecting

Reflecting is a capability to apply knowledge for new situation and facts. Naktiyok et al. (2005) argued that this concept means to develop some intuitive standards for next cases, within the supports of experiences. According to Pisapia et al. (2005), reflection is the ability to weave logical and rational thinking through the use of perceptions, experience and information to make judgments as to what has happened and then creates intuitive principles that guide future actions. The five abilities are used in reflection identified as follows (Pisapia et al. 2005):

1. To recognize why certain choices work and others do not.
2. To use double loop learning governing principles.
3. To use perceptions, experience and knowledge to understand situation and how to think about them.
4. To blend perceptions, experiences, and knowledge and analysis while taking action.
5. To use your current perceptions, experience, and knowledge and that of others from past experience to create an understanding of the present and the future.

System Thinking

The idea of system thinking is to see whole and develop a holistic view in order to solve of problems. The features of system that provide a basis for behaviors, relations, interactions and whole social networks have to be considered. Pisapia et al. (2005) identified the term and discuss the main abilities used in system thinking: Systems thinking is the ability to see systems holistically by understanding the properties, forces, patterns and interrelationships that shape the behaviors of the systems which provide options for actions. There are four abilities are used in systems thinking:

1. To think holistically.
2. To recognize patterns and interrelationships.
3. To recognize and act upon intrinsic systems properties and specific systems archetypes.
4. To recognize and act upon the system imperatives of goal attainment, pattern maintenance, integration and adaptation.

Strategic Planning

The strategic planning has defined as the process included in evaluating an organization and its relationships with its environment, deciding what has been useful for the company and how it may realize its objectives, and it has defined the company's strategy and making decision on allocating its resources to remain its own strategy with the capital and manpower. There are some definitions about this term that are held by many researchers in their past investigations. Poister and Streib (1999, p 311-312) defined the strategic planning as "the overall purpose of strategic management was to develop a continuing commitment to the mission and vision of the organization, nurture a culture that identifies and supports the mission and vision, and maintained a clear focus on the organization's strategic agenda throughout all of its decision processes and activities". According to Olsen and Eadie (1982, p. 4), strategic planning was a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization was, what it did, and why it did it. In short, it is a set of concepts, procedures, and tools designed to help leaders, managers, and planners think, act, and learn strategically (Bryson, 2004, p. 15).

In recent years, strategic management and also strategic planning have been most popular investigations subjects for many researchers. In some studies, they have been taken as an important tools and objectives for businesses while explaining its effects on company's goals in others. By the way, strategic planning may enhance organizational viability and its competitive forces. Ayouna and Moreob (2008) pointed out that top managers of individual business units are directly responsible for the overall process of strategic management of their businesses; the linkages between their personal characteristics and the approach toward strategy development have been yet to be understood. Strategic planning was defined by Martin (1998) as forecasting the future success of an organization by matching and aligning all, while Begun and Heatwole (1999) expressed it could provide a framework for coordinated efforts to ensure that key stakeholders understand and were working in support of common organizational objectives.

The existing literature provides few investigations about strategic planning in the tourism and hotel industry (Karhunen, 2008; Burgess et al., 1995; Litteljohn and Roper, 1991; Slattery, 1996; Crawford-Welch, 1991; Alexander and Lockwood, 1996). Additionally recent researches, in international business and management have identified a number of institutionally derived forces that affect business strategies in a post-socialist environment through transaction costs or relational networks (Karhunen, 2008).

RESEARCH METHOD AND MATERIAL

Research Approach and Process

The purpose of the study is to assess the effects of strategic consciousness in hospitality industry, and to investigate its influences on strategic planning. A cross-sectional method was employed as known survey method. Data were collected through a developed survey according to the past researches. The Questionnaire has consisted of four parts:

- [1] The factors of strategic consciousness in hotels.
- [2] The factors of strategic planning in hotels.
- [3] Customer satisfaction level as non-financial performance indicator (relatively).
- [4] Demographics of participants (hotel managers).

Research Instrument and Data Collection

Data for study was collected with structured questionnaire from 4 and 5 star hotels in Istanbul and analyzed via package statistical program. Firstly, descriptive statistics about participants (hotel managers) showed. Later, advanced statistical analysis such as factor analysis was performed to reduce a great number of variables related strategic awareness and reflected strategic operations as outputs of strategic awareness. The obtained data were classified by using "principal component analysis". Furthermore Regression Analysis had been done.

A 20 item scale questionnaire instrument was developed, based on the Naktiyok et. al. (2009) and Pisapia et al. (2005) to investigate the levels of strategic thinking, and a 30 item scale for strategic planning activities adopted from Naktiyok et al. (2009). As a dependent variable the level of customer satisfaction in relations with industrial levels was measured with an item. Naktiyok et al. (2009) measured strategic thinking within the frame of three variables (reframing, reflecting and system thinking) as referred to Pisapia et al. (2005); and strategic planning with five variables (intuitional thinking, strategy base and action plan, environment analysis, knowledge management and strategic control) from some strategic planning tool kits and self-assessment questionnaires. The items for strategic thinking were getting from Naktiyok et al. (2009) by the control and redesign from Pisapia et al. (2005) and items for strategic planning from Naktiyok et al. (2009) without any redesign process. Applicants indicated agreements on five-point scale, ranging from 1-strongly disagree to 5-strongly agree. The item for customer satisfaction level indicated "level of satisfaction" opposite of industrial averages.

The Population and Sampling

The research population of the sample was consisted of managers were employed in qualified (4 and 5 star hotels) hotels in Istanbul. Data were collected from 71 hotels. According to Statistics of Accommodation Establishments published by Ministry of Culture and Tourism, 55 five-star and 103 four-star hotels located in Istanbul by the year 2008 (Republic of Turkey Ministry of Culture and Tourism, 2009).

RESEARCH FINDINGS

In the data analysis phase of the study, obtained data from hotels were analyzed by using descriptive and inferential statistical methods. Before the analysis for the study at hand, collected questionnaire forms were study, and sieved questionnaire that carelessly done. Then, the remaining polls were evaluated.

Descriptive Statistics about Participants

A hundred and fifty questionnaires had been sent to hotels out, and 71 hotels had responded. Eighteen percent of participants were female, 78 percent of them were male. Twenty-one percent worked as top manager while sixty-six percent as mid-level manager. Six percent of them had mid-school education, thirty-five percent had two-year degree, forty-eight percent had high school education, and ten percent had master and doctoral degree. According to their age categories, about one percent was under 25, thirty percent were 26-30 years old, twenty-four percent were 31-35 years old, and seventeen percent of them were above the forty. All participants had management experience between; thirty percent 1-4 years, twenty-eight percent 5-8 years, fourteen percent 9-12 years, and sixteen percent more than 13 years. By the context of total job experiences, seventeen percent of them

had 1-4 years, twenty percent had 5-8 years, sixteen percent had 9-12 years, and forty-five percent had more than thirteen years (Table 1).

Table 1: Demographics of Survey Voters

<i>Gender</i>	N	%	<i>Position</i>	N	%
Female	13	18,3	Top Manager.	15	21,2
Male	55	77,5	Mid-level Manager	48	67,6
Missing	3	4,2	Missing	8	11,2
<i>Education</i>			<i>Job Experience as Manager</i>		
Mid-level	4	5,6	1-4 years	26	36,6
Under graduated	25	35,2	5-8 years	20	28,2
Graduation	34	47,9	9-12 years	10	14,1
Master & Doctorate	7	9,9	13 + years	11	15,5
Missing	1	1,4	Missing	4	5,6
<i>Age</i>			<i>Job Experience in Total</i>		
- 25	1	1,4	1-4 years	12	16,9
26-30	21	29,6	5-8 years	14	19,7
31-35	17	23,9	9-12 years	11	15,5
36-40	16	22,5	13 + years	32	45,1
40 +	11	16,9	Missing	2	2,8
Missing	4	5,6			

Findings about Strategic Consciousness

It is very crucial to gather information via a valid scale and test its structural validity by factor analysis. For this purpose, the strategic thinking items and strategic planning items tested with factor analysis separately. Principal component analysis, with varimax rotation, was used to assess how the 20 items were grouped for the replies on strategic consciousness. Three of items were either cross loaded or had low scores (<,40) in the analysis, they were excluded to clearly identify the structure. The result of Keiser-Meyer-Olkin (KMO) test for sampling adequacy was 0,896 which supported the coherence of data for factor analysis. The factor analysis indicated 2 factors with eigenvalues greater than one, and these two factors explain %64,991 of total variances.

Table 2: Dimensions of Strategic Consciousness

Factors	Factor Loadings	Eigenvalues	Variances Explained%	Cronbach Alpha
Reframing and Reflecting		6,04	35,55	,937
Consideration of using information gathered by experience, in the solution of the problems.	,827			
The causes of error and success were searched.	,827			
“Why” was asked frequently in order to understand problems.	,806			
It was requested from employees that they to be aware of relations between diverse information.	,784			
We have a consciousness to use different perspectives against complex problems.	,761			
Consideration of the effects of “institutional consciousness” while searching roots of problems.	,745			
It was expected that each employee must develop a unique / different solution against errors.	,718			
To provide conditions for employees can develop their problem solving capability.	,655			
Consideration the limitation of perspectives created within the firm (ST35)	,617			
Evaluation of decision processes and results to relocate experience into knowledge.	,574			
System Thinking		5,00	29,44	,900

Consider how change occurs through the influence of environmental factors.	,835		
Look for the overarching, common goal when two parties are competing.	,785		
Locate a problem within the structure of things—including hierarchies, goals, specialized roles, and formal relationships—that influence the specific problem.	,762		
Evaluate a situation using many different viewpoints.	,743		
Try to evaluate relationships between variables in the process of understanding complex information.	,730		
Employees are aware of how affected the firm activities what they have done.	,715		
Consideration of institutional values and beliefs while re-evaluate of decisions and results of business.	,587		

NOTE: Principal Components Factor Analysis with Varimax Rotation., Kaiser-Meyer-Olkin Test Value: ,896, Bartlett's Test of Sphericity: $p > .000$; X^2 : 901,238, df: 136; Total Variance Explained: % 64,991; Voting Categories: 1:Strongly Agree - 5: Strongly Not Agree.

Table 2 shows the item loadings of each factor along with their respective eigenvalue, percent of variance explained and Cronbach alpha's of factors. Reframing & reflecting factor consisted of 10 items and explained 35.550 percent of the total variance. System thinking factor comprised 7 items and explained 29,441 percent of total variation in the data. Reframing, system thinking and reflecting were three factors expressed as dimensions of strategic thinking by Pisapia et al. (2005) and also Naktiyok et al. (2009). In the sample of hotels, it was diversified as a structure with two factors; reframing & reflecting, and system thinking. This result indicated that the scale of strategic thinking was adequate for hotel population, but with a structural differentiation. For hotel, we have to consider the concept of strategic consciousness within two factors/dimensions.

Reflections of Strategic Consciousness

To assess the structure of strategic planning, factor analysis was implemented. Principal component analysis, with varimax rotation, was used to assess how the 30 items were grouped for the ratings on strategic planning. Fourteen of total items were either cross loaded or had low scores ($< .40$) in the analysis, they were excluded. The result of Keiser-Meyer-Olkin (KMO) test for sampling adequacy was 0,866 which supported the congruence of data for factor analysis. The factor analysis indicated 4 factors with eigenvalues greater than one, and the ratio of variance explained by these four factors is 72,351% (Table 3).

Table 3: Dimensions of Strategic Consciousness Reflections

Factors	Factor Loadings	Eigenvalues	Variances Explained%	Cronbach Alpha
The Content of Strategic Action Plan		3,37	21,06	,874
Action plan clarifies aims and activities obviously	,824			
Employee knows how and from where they can gain information that they need.	,744			
Resources are identified for action plan	,732			
Qualitative and quantitative estimation techniques are utilized for strategic planning	,663			
We have a vision and mission statement	,650			
Stakeholder Analysis and Participation		2,97	18,56	,872
The communication channels were identified for every stakeholder groups.	,874			
The needs and demands of stakeholders was defined	,776			
All of related employees were involved in planning process.	,671			
In planning process, feedback was gained.	,564			
It had been determined the time periods for each action in action plan.	,559			
Existence of Action Plans		2,67	16,69	,807
We have a plan for medium-term (1-3 years)	,820			
We have a long-term plan (for after 3 years)	,794			
We have a short term plan (for the period until 1 year)	,755			
Performance Measurement		2,56	16,02	,812
It is defined and well known how the results of controls will analysis and report.	,850			

Performance outcomes were scanning and analyzing regularly.	,845			
The targets of our firm are identified and could be measured as quantitative.	,660			

NOTE: Principal Components Factor Analysis with Varimax Rotation, Kaiser-Meyer-Olkin Test Value: ,866; Bartlett's Test of Sphericity: $p > .000$; X^2 : 692,454, df: 120; Total Variance Explained: % 72,351; Voting Categories: 1:Strongly Agree - 5: Strongly Not Agree.

The content of strategic action plan, stakeholder analysis and participation, existence of action plan, and performance measurement factors are identified. The content of strategic action plan factor consisted of five items and explained 21,06% of the total variance. Stakeholder analysis and participation factor comprised five items and explained 18,56 percent of total variation in the data. Existence of action plan factor consisted of three items which explain 16,69 % of total variances. Performance measurement factor also consisted of three items explained 16,02% of variances. This is the situation how sampling hotels are performed strategic planning, and which determinations are effected planning process.

Internal consistency reliabilities for factors were generally high, indicating respondents answered these items consistently.

To investigate the effects of strategic consciousness factors on strategic planning factors (Table 4) and strategic planning factors on the level of customer satisfaction (Table 5), regression analysis was conducted. To determine these relationships, the related factors entered into the equation together, and factors which have a significant effect are highlighted.

Table 4: Regression Analysis Results for the Effects of “Strategic Thinking” Factors on “Strategic Planning” Factors

Dependent Variable	Predictors	Beta	t value	p value	R ²	F Change	Sig.
Content of Str. Action Plan	Reframing & Reflecting	,176	1,681	0,097	,617	54,789	,000
	System thinking	,653	6,254	0,000			
Stakeholder Analysis And Participation	Reframing & Reflecting	,532	5,082	0,000	,616	54,464	,000
	System thinking	,315	3,014	0,004			
Existence of Action Plan	Reframing & Reflecting	-,087	-,721	,474	,491	32,846	,000
	System thinking	,759	6,301	,000			
Performance Measurement	Reframing & Reflecting	,857	8,693	,000	,659	65,626	,000
	System thinking	-,068	-,686	,495			

System thinking has a significant effect in explaining variance on content of strategic action plan ($p < 0,01$). R-square shows this is a strong effect and to explain the variation of dependent variable, variation of system thinking has strong effect. Each two independents have determined effect significantly on the explanation of variations on stakeholder analysis and participation ($p < 0,01$). R-square is absolutely high. As a dependent variable, existence of action plan is determined by system thinking significantly ($p < 0,01$) with the R-square value of ,49. The variation on performance measure factor also explained by variation on reframing & reflecting factor significantly ($p < 0,01$) with a high R-square rate of ,65.

These results show how these two concepts / structure are tied to each other and significance of identified relations within the dimensions of them. In this framework, it may assert a proof for the relationship of these dimensions. And to advocate the effect-cause relation between these dimensions is meaningful.

Table 5: Regression Analysis Results for the Effects of “Strategic Planning” Factors on the Level of Customer Satisfaction

Dependent Variable	Predictors	Beta	t value	p value	R ²	F Change	Sig.
Level of customer Satisfaction	Content of Str. Action Plan	-,045	-,297	,767	,270	7,095	,000
	Stakeholder Analysis And Participation	,587	3,869	,000			
	Existence of Action Plan	,071	,543	,589			
	Performance Measurement	-,061	-,472	,639			

Three of strategic planning factors (the content of strategic action plan, existence of action plan, and performance measurement) did not have any significant influence on the level of customer satisfaction ($p > 0,05$). Only stakeholder analysis and participation factor significantly explained the variation in dependent variable at the level 27 percent (R²).

The similar significant relations had been founded by Naktiyok et al. (2009). Although there are differences on factors which determine the construct of strategic planning, the match between two studies by the strong effect from strategic consciousness to strategic planning is noteworthy. Results indicated that in hotels there is a strong dependency between planning and consciousness. And planning acts a key role to capture the satisfaction of customer. Findings are shown below as Figure 1.

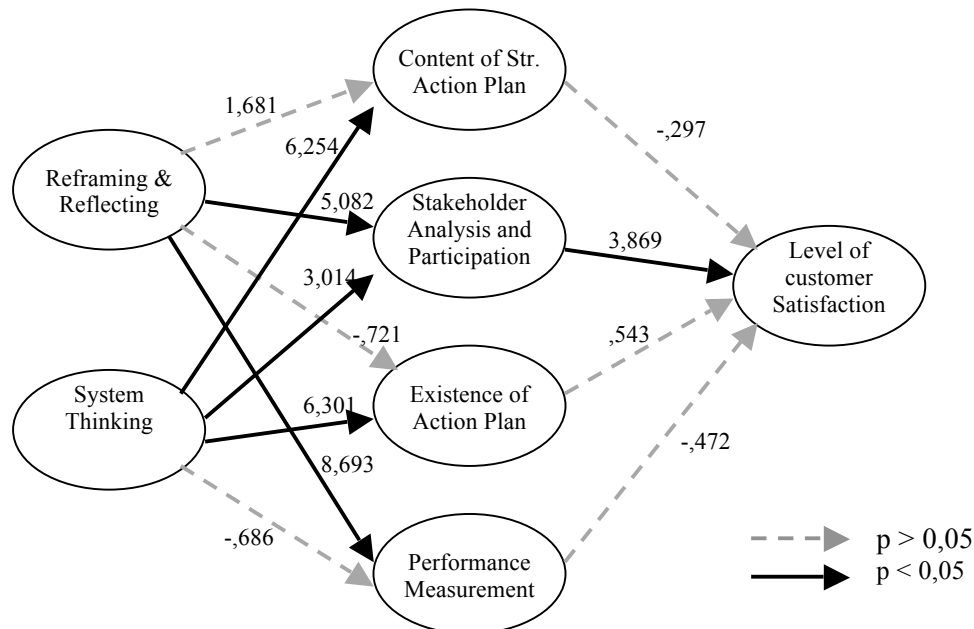


Figure 1: The Model of Study with t Values

CONCLUSION

This study investigated the effects of strategic consciousness on strategic planning, and the effects of strategic planning on customer satisfaction. Initial results indicated that reframing & reflecting factor and system thinking factor explained significant variances in both content of strategic action plan, stakeholder analysis and participation, existence of action plan, and performance measurement. To explain the variations in content of strategic action plan and existence of action plan, only system thinking created an effect while the performance measurement factor determined by only reframing & reflecting. This is the more noteworthy result of both factors of thinking have strong power to explain the variation in stakeholder analysis and participation. In the other hand, the level of customer satisfaction is explained only by stakeholder analysis and participation significantly.

We can express that for the qualified hotels, reframing & reflecting, and system thinking factors determine strategic planning activities, especially stakeholder analysis and participation, and this variable has crucial contribution to customer satisfaction level of firm.

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THE IMPORTANCE OF CUSTOMER FOCUSED MARKETING STRATEGY BY RELATIONSHIP MARKETING APPROACH AND A BOUTIQUE HOTEL APPLICATION FROM TURKEY

Güzide Öncü Eroğlu Pektaş
Halic University, Turkey
Mustafa Karadeniz
Naval Science and Engineering Institute, Turkey

ABSTRACT

Years ago, owner of the Ford Motor Company had emphasized the product focused approach by stating as ‘‘Any customer can have a car painted in any colour he wants so long as it is black’’. This strategy was valid since offer was not enough but demand was high. But because of the improving globalizing, world expects on customer focused approach. Shrinking world market share, low offer high demand and financial crisis occurring in some countries have focused the companies to invent new marketing strategies to sell their products before their rivals. So relationship marketing related customer focused marketing strategy has been emerged. Companies are making their strategic marketing plans on keeping long term customers and trying to have loyal customers when upgrading their marketing strategies. Companies are distributing loyalty cards, bonuses or variable reduction tactics to their target customers and expressing their messages by television, internet or mobiles. Companies which do not implement planning and contemporary marketing tactics will stay one step behind their rivals and vanish in time. Customers are deciding their purchasing activities as sorting out thoughtfully in quality, cost and service advantage after buying of the product nowadays. In this research we aimed to observe by survey method on the importance of relationship marketing and customer focused marketing strategy and whether relationship marketing is occurred in tourism sector. A local boutique hotel from Turkey will be selected and a survey will be applied to customer of this boutique hotel.

Keywords: *relationship marketing, tourism marketing, marketing strategy*

INTRODUCTION

Relationship marketing is a competitive marketing strategy which has been implemented lately in the marketing literature. It is a strategic approach aimed enhancing, protecting and improving customer satisfaction and customer loyalty specially in the production and service sectors. Years ago owner of the Ford Motor Company had emphasized the focused on product approach by stating ‘‘Any customer can have a car painted in any colour he wants so long as it is black’’. But focused on product approach has been turned into customer focused approach by the effect of constantly improving and globalizing world. Companies have to invent new marketing strategies to keep their products one step forward from rivals’ ones due to shrinking markets and more offer than demand. From this point of view importance of customer focused marketing strategy depending on relationship marketing is increased. Companies ahead to have loyal customers and planning their marketing strategies on keeping long term customers. Companies are realizing relationship marketing strategies by achieving in keeping customers on life time customer in dense competitive environment. We are planning to measure the level of customer loyalty and customer focused marketing strategy in a company which is a service sector. The reason for selecting servicing sector is the fact that customer loyalty and satisfaction is more important in servicing sector.

LITERATURE REVIEW

The late management guru, Peter Drucker, stated, ‘‘Innovation and marketing are the only two valuable activities of a firm. The rest are costs.’’ Yet, marketing has become increasing pressure as managers find it hard to show a backward reaction on marketing spending. Asking for millions of dollars for advertising or for improving

customer service is easy, but it is much harder to indicate how this investment affects corporate profits or shareholder merit. This has mostly led corporates to resort to state of art short-term strategies like promotions, cost-reducing or financial reengineering whose effects are easier to measure. (Gupta & Lehman 2006, p.88)

Relationship marketing is a philosophy to affect willingly the customers behaviours and implementations depending on what the customers idea about the company is and what the personnel of the firm should know about the customer. (Odabaşı, 2000, p. 19)

A relationship's value as it is felt by the customer has been given a lot of consideration in recent studies. (e.g., Anderson & Narus 1998; Eggert, & Ulaga 2002). Like the customer-perceived value, the supplier-perceived value of a relationship amplifies the supplier's understanding of the trade-off between the benefits and the disadvantages in a relationship. The appraisal of customer relationships takes into account all positive and negative contributions of the customer to the supplier's aims. (Helm 2004, p.79.)

Relationship marketing as a term has been used mostly to cover various activities, with distinction made between its philosophical, strategic and operational dimensions (Bery 1995; Gronroos 1994) given by a general definition of the domain of relationship marketing when he showed it as being about mutually beneficial exchanges and realizing of promises by both parties in a number of interactions over all periods of their relationship. To explain the domain of relationship marketing, a number of recurrent subjects have helped, especially trust, commitment, a long term orientation and co-operation (Morgan and Hunt 1994; Bagozzi 1995; Gronroos 1994; Christopher, Payne and Ballantyn 1991). It has been obvious that relationship marketing at the level of business to business exchange requires very different principles and techniques with relationship marketing between a company and numerous low value personal customers. (Palmer 2002, p.81)

The primary goal of relationship marketing is to build better relationships with customers and a strategy to solve problems such as taking global competitive advantage, challenging rapidly changing technologies and reducing 'time - to - market' of new products. (Wel & Bojei 2009, p.25)

Servicing and selling existing customers is viewed to be just as important to long-term marketing success as acquiring new customers. Relationship marketing is attracting, maintaining and -in multi service organizations- enhancing customer relationships. It is necessary to serve qualified to retain the relationship. Good selling is needed to enhance it. The marketing mind -set is that the attraction of new customers is only the initial step in the marketing process. Empowering the relationship, making similar customers loyal, servicing customers as clients- this is marketing too. (Berry 2002, p.61)

Between 1980s and early 1990s, marketing research began to emphasize the importance of producing relationships for effective marketing. Emory University that brought the issue of relationship management into the mainstream was the base for the center of relationship marketing. (Sharma 2007, p.35)

Relationship marketing has gained significant attention since the 1990s as consumers have become more demanding with firms and rivalry has intensified. Marketers have become interested in the potential of relationship marketing activities to deliver enhanced value to the customer over and above the firm's product or service offering. Because of the difficulty of direct imitation by competitors, maintaining strong customer relationships offers an important rival advantage. (Sherrell & Bejou 2007, p.4)

Relationship marketing is mainly about the sustaining mutually beneficial exchange relationships and benefits and threats of engaging in. Relationship marketing states that, usually, it is more critical for a company to contact with existing customers, and to make customers more loyal, than it is to try to gain new customers. The concept of relationship marketing shows that exchange relations are not 'one-off' but are continuing over the lifetime of the relationship. (Evanschitzky & Wangenheim 2006, p. 80-81)

In enhancing business performance, Competitive Marketing Strategy has relationship marketing as one of the key factors. Relationship marketing can be explained as the identification, foundation, maintenance, enhancement, modification and termination of relationships with customers to found value for customers and profit for company by a series of relational exchanges that have both a history and a future. (Kanagal 2009, p. 97)

Understanding how to start and maintain buyer-seller relationships is becoming increasingly paramount for marketers, because of increased competition and price pressures. (Peltier, Schibrowsky, & Davis 1998). Especially, to success an effective relationship in a consumer context is thought to be even more hard than it is in a business context, given the generally more multi dimensional character of consumers as opposed to business customers.

In most studies, the literature distinguishes between three levels of relationship marketing (Berry 1995). A first level depends on pricing incentives to secure customer loyalty. It is often called as 'level one relationship marketing.' A second level of relationship marketing focuses at the social aspects of a relationship for example regularly talking with consumers or calling their name during an encounter. These social tactics are usually bundled into what is called "Level two relationship marketing", "Level three relationship marketing" is related with finding structural solutions to customer problems, as argued by Berry (1995). At a level three, the solution to customer's problem is designed into the service-delivery system rather than depending upon the relationship marketing goes beyond what is commonly described as a loyalty program. Loyalty programs are usually based

upon level one and/or level two relationship marketing, and were explained by Sharp and Sharp (1998) as ‘‘... efforts on behalf of the company rewarding customers for their loyal behaviour.’’ Today, it is extremely popular to use of loyalty programs as a technique for companies to enhance customer loyalty, as it is thought that both consumers and companies can take benefits from it. (Wulf & Schröder & Canniere and Oppen 2003, p. 70-71)

Different people understand different things about Customer Relationship Management(CRM). For some, it is the term to describe a set of IT applications that automate customer-facing process in marketing, selling and service. For others, it is about an organizational wish to be more customer based. (Irina& Buttle 2006, p.23)

Customer relationship management is the general company strategy which concentrates to the starting and retention of the long living and powerfull relations with customers. Loyalty programs are creating for the effective development of these relations. (Gudonaviciene & Rutelione 2009, p.397)

Customer lifetime value and customer profitability are fast becoming accepted as new bases to customer classification. Firms are building on traditional bases segmentation like geographic, demographic, socioeconomic, attitudinal, and behavioral to incorporate customer past and projected purchase data into customer classification models, customer portfolio models and resource allocation decision making. These models provide sales and account managers another lens through which to understand and prioritize their customers, and to evaluate the efficiency and effectiveness of their marketing and sales programs and resource allocations.(Lemon & Mark 2006,p. 57)

Increasing interest in Mass Customization has focused on the role of relationships. Proponents of mass customization point to the growing importance of implementing an experimental view of consumer behaviour, showing that all companies need to understand the complicated subjectivity involved in consumption, and should look for developing unique formulations of products which satisfy each individual’s requirements. For most products, there has been the tendency to change from mass marketing of a homogenous product to anonymous buyers towards customization of product to meet the needs of known individuals whose needs have become apparent through some form of dialogue based relationship.(Palmer & Bejou 2005, p.5)

Loyalty is an hard to grasp concept. Behavioural data is typically used to measure the loyalty of customer in marketing literature, because its collection is easier and cheaper to obtain. Behavioral data can have frequency of purchase, size of purchase. The argument against behavioural data is that is it difficult to differentiate between adulterate loyalty and true loyalty. Adulterate loyalty involves a situation where the customer will face to alternatives at the first available oppurtunity. True loyalty is the state where customers may never think other options and will stay with an organization in spite of changes in factors like price.Behavioural measures fail to distinguish between true and Adulterate loyalty and do not identify the factors that underlie the behaviour. (Wetsch 2005, p.32-33)

Customers too enjoy certain benefits from relationship marketing, especialy, risk reduction and social benefits. Gwinner,Gremler,and Bitner(1998) claimed that consumer relational benefits could be classified into three distinct benefit types: confidence, social, and special treatment. Cannon and Homburg (2001) have found cost and value to be other important benefits that customers look for. Customers also appear to prefer certain styles of marketing from suppliers (Chaston 2000). When customers enter into a relationship with a company, they are often willing to forego other options and to limit their ways. Some of the motivations to do so come from greater efficiency in decision making, reduction in information processing, successing of greater cognitive consistency in decisions, and reduction of forseen risks associated with future decisions (Sheth and Parvatiyar 1995). Relationship marketing allows service providers to be more responsive to customer requirements, thereby offering more value to their customers.

Relationship marketing appears to be an expensive alternative to firms practicing mass marketing due to relatively high initial investments, though it has numerous benefits. This results in, firms that are used to traditional mass marketing are likely to adopt relationship marketing only if they believe that relationship marketing will benefit them.

In the context of relationship marketing relationship strategy is marketing strategy. According to Morgan (2000), relationship marketing can be a part of the firm’s overall means of achieving its targets and objectives. It can be a big part of the firm’s strategy, and can give the firms a guiding strategy for decisions.

New developments in information technology, data warehousing and data mining have made it possible for firms to maintain a one-to-one relationship with their customers (Peppers, Rogers, and Dorf 1999). Through account management personnel, call centers, interactive voice response systems, on line dial up applications, and web sites firms can often manage every single contact with the customer to build lasting relationships. These interactions can be used to gather information and insights about customer needs and their buying behavior to design and develop services that helped create value for customers as well as for the company. Business need to do a lot more than just adopt these solutions to implement customer relationship management (CRM) practices, although customized as well as off the shelf technological solutions are available in the marketplace (Mirani,Moore, and Weber 2001), (Pisharodi & Angur & and Shainesh 2003, p. 5-6)

It is widely related for enterprises to direct risky relationships for two reasons. First of these, the importance of the consumption event is presumed and has been shown to be connected to a lower aim to express

dissatisfaction. So, dissatisfied customers in consumer goods mass markets are more probable to quietly reduce their buying frequency or their quantity compared to other suggestions. Second, research on consumer behaviour has proved that behavioral intentions are frequently not a sufficient forecaster of actual behaviour. Peculiarly, for consumer goods a decline in sales is frequently not even conscious to customers. (Moeller & Fassnacht and Klose 2008, p.199)

METHODS

In this research, the importance of relationship marketing and customer focused marketing strategy and whether relationship marketing is occurred in tourism sector are observed by survey method. We selected a local boutique hotel from Turkey and applied a survey to customers of this boutique hotel. We evaluated the value of tourism companys' customer focused relationship marketing strategies. The application of boutique hotel survey was applied to a boutique hotel in Taksim region in Istanbul. In this research independent variables are service quality, location, price and promotion activities and dependent variable is level of loyalty of the customers. With SPSS analysis method, trust analysis, frequency analysis, factor analysis and regression analysis are used.

RESEARCH DESIGN

Application part of the study was conducted in a boutique hotel in Istanbul. The boutique hotel in Taksim area hosts many local and foreign guests. The hotel has a capacity of 65 rooms, a large meeting room and a beautiful terrace on the top floor. Not only foreign tourists but also domestic tourists prefer this hotel for meeting and conferences.. Boutique hotel, why we prefer our research of the relational marketing philosophy of the concept of customer focus and loyalty is more common in small and medium-sized tourism enterprises is the idea. Our survey boutique hotel guests, such as face-to-face, with an average over a period of two weeks was completed. Related to circulation of guests and hotel room capacity, a total of 60 hotel guests were questioned. Research model is listed below. At Palmatier and the 2006 work inspired by the adapted model, expertise and competence of the workers, business image, service quality, relationship marketing tactics and operations of the physical features of the independent variables as dependent variables commitment to the effect will be investigated.

RESEARCH MODEL

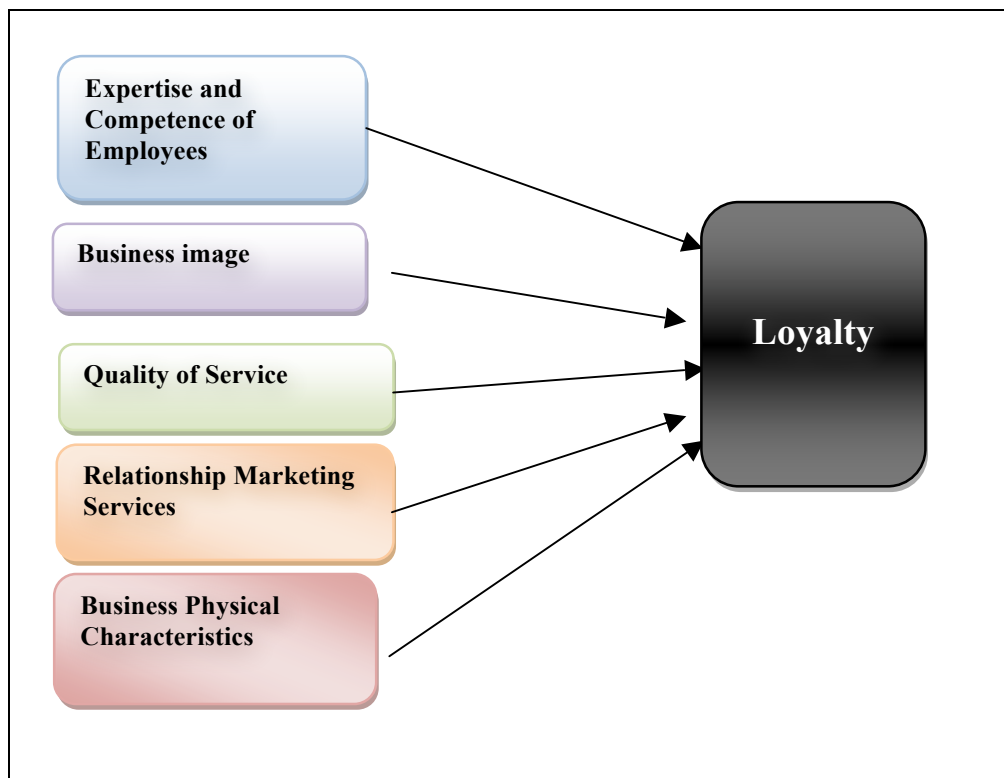


Figure 1. Research Model

Source: The study was developed and inspired by Palmatier et al (2006)

The frequency analysis was conducted to demographic characteristics of the 60 people surveyed. 46% were female participants, 53% were male, aged 26-30 years with the largest weight in the range of 35% when creating the second period with 21% of the 31-35 age range is made up of guests. 40% of participants were university graduates in education levels, while 31% of graduates have master degrees. Marital status; %46 married, % 41 single, % 10 is the widow. Income levels; participants has a percentage of 26% at 2501-3000 YTL , of 21% 2001 to 2500 YTL range. With the end of the demographic characteristics of the profession as employees of the private sector constituted the largest percentage. Incentives are the second professional guests. Participating in the survey were asked for the reason of coming to hotel and we learned that the participants who came for work is 22% , visit 18% and conventions and meetings 14%. When we asked to the participants whether they were loyal to the hotel or not, the 48% of the participants' answers were "yes".

FACTOR ANALYSIS

Reliability analysis of the survey questions were examined before the factor analysis. Cronbach Alpha coefficient of reliability of survey questions was the value 0.818 which suggested a reliable result. We had a total of 26 variables in the questionnaire and we removed four questions which had low reliability and coefficient values smaller than 0.500 degree. We considered the question of the loyalty variable is 6. Accordingly to the factor analysis 16 questions variable have been put. As a result, factors variables have been grouped under four. The KMO value was very good up to a level at 0.796 level. This shows proper to factor analysis. 1. The questions, "These hotel workers are experts in their fields, the hotel staff is acumen, the hotel employees are knowledgeable and talented while dealing with the hotel customers' problems, the questions employees expertise and competence." are subgrouped under the name of employers' competence and expertise at factor group. 2. The questions; " This hotel as a company is an innovative and forward-looking, this hotel customers feel themselves safe, this hotel is a regular guest of the rewards and benefits makes this hotel, repeat customers offer better service, this hotel is a good image" are subgrouped under the name of service quality and image at factor group.3. The questions; "This hotel is always clean and sanitary, quality equipment and materials are used in this hotel, this hotel is quiet, comfortable." Are sugrouped under the hotel's physical characteristics at factor group.4 The Questions;" This hotel's employees are trusted, who work at this hotel and honest, experienced staff " are subgrouped under the name of confidence and attitude of the employees at factor group.

Table 1. Factory result analysis

Name of Factor	Expressions of Questions	Factor Weights	Explanatory Factor For (%)	Reliability
1. Employees' Expertise and Competency	This hotel staff are experts in their fields Hotel staff is versed in this business.	0,840	17,146	0,825
	This hotel gives attention the customers' problems immediately.	0,838		
	In this hotel staff is knowledgeable and talented.	0,707		
		0,563		
2. Service Quality and Image	This hotel is an innovative and forward-looking company .	0,788	16,433	0,753
	This hotel's customers will feel themselves to be safe	0,674		
	This hotel offers convenience and rewards to repeat customers.	0,662		
	This hotel offers a better service to repeat customers.	0,593		
	This hotel has a good image.	0,590		
3. Physical Characteristics of Hotels	This hotel is always clean and hygienic.	0,881	15,791	0,777
	This hotel uses good quality equipment and materials.	0,734		
	This hotel is quiet.	0,687		
	This hotel is comfortable.	0,572		
4. Confidence and Attitudes to employees	In this hotel employees are trusted..	0,789	14,158	0,715
	In this hotel employees are honest and sincere..	0,764		
	In this hotel employees are experienced.	0,657		

Table 2. Regression Model Summary

Model	R	R Square	Designated R Square Value (Adj. R 2)	Estimated Standart Deviaiton	Durbin-Watson
1	0,676 (a)	0,458	0,418	0,418	1,763

The fourth factor in the regression analysis, factor analysis results we bring to the boutique hotel, a level of commitment as well as increased 45%. In this case, boutique hotel for hotel customers are loyal customers can make comments. As shown in Table 3, the most significant factor contributing to faithfully provide all the factors. That our research shows the significance and validity. Boutique hotel, 45% loyalty are all factors supporting the group. From these results, the hotel's service quality and customer-focused marketing approach can tell you just kind of customer loyalty.

Table 3. Regression Analysis Coefficients

	p value (sig.)	VIF
Expertise and competence of employees	0,000	1
Service Quality and Image	0,010	1
Physical Characteristics of hotel	0,001	1
With Confidence and Attitudes of employees	0,000	1

CONCLUSION

Relationship marketing is a widely used strategy by companies to establish good relations with customers and make these relations continue. It is important to form confidence between companies and customers to constitute a long term communication with customers. In this context, it is necessary to understand customers' demands and develop an marketing strategy on the basis of these demands. For this reason, a bilateral communication with customers and constant data flow is very important. With the help of bilateral communication with customers, companies will gain loyal customers.

In the X boutique hotel application based on relationship marketing with customer focus philosophy, our results are also close to Palmatier and others (2006) article which we were inspired by the research model. Model of expertise and competence of the staff, service quality and image of the hotel's physical properties and the application of the results of 4 independent variables are consistent. 4. The trust factor and the attitude of our employees in the survey given scarves high factor weights were created by a different group of factors. Results of this research before all prepared, and the fit between the model results shows consistency. The boutique hotel has a close level of loyalty 50% and this is another positive result. This shows commitment of the customers to the hotel. When we comment the attractive results at demographic characteristics, we should say that the majority of the participants of this survey is male. guests. While the majority of private sector employees, professional groups, income levels in the range of 2200-3000 YTL. It is seen that occupational and income status of the guests are in good condition. And the last demographic characteristic is about education level which shows that majority of the participants are graduated from college or master degrees. Participants in the survey are loyal to hotel when we look their answers including 48% percentage. This emphasizes that we can see the loyalty of participants without analyzing the survey.

This study shows relationship marketing approach in terms of customers' loyalty. A conceptual point of view of the literature was showed and then 60 hotel guests were made to the survey at a medium-sized boutique hotel in Istanbul. We think that this survey assigns a new point of view to the literature and also to the tourism sector by the view of relationship marketing.

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MARKETING STRATEGIES

THE EFFECTS OF CONSUMER ETHNOCENTRISM AND CONSUMER ANIMOSITY ON THE RE-PURCHASE INTENT: THE MODERATING ROLE OF CONSUMER LOYALTY

M. Şükrü Akdoğan
Şevki Özgener
Metin Kaplan
Ayşen Coşkun

Nevşehir University

ABSTRACT

With the growth of international trade and travel, consumers are increasingly confronted with foreign products and services. But some negative attitudes towards foreign products can arise from several factors such as previous or ongoing political, military, economic, or diplomatic events. Thus, both consumer ethnocentrism and consumer animosity have become important constructs in marketing. The purpose of this study is to investigate whether consumer ethnocentrism and consumer animosity affect repurchase intent towards U.S. products and whether this impact is moderated by customer loyalty. The findings of the research indicate that consumer ethnocentrism increases consumer animosity for the sampling. The present study also denotes that both consumer ethnocentrism and animosity have a negative impact on repurchase intent toward U.S. products in Turkey. According to the results of regression analyses, customer loyalty may not be an important moderating factor between consumers' animosity and repurchase intent toward U.S. products. However, customer loyalty moderated the relationship between consumer ethnocentrism and repurchase intent toward U.S. products. Further implications for Turkish consumers in supermarkets in the province of Nevşehir are discussed. The value of future research is also acknowledged.

Keywords: *Consumer ethnocentrism, Consumer animosity, Customer loyalty and Repurchase Intent*

INTRODUCTION

Ethnocentrism and animosity as concepts associated with marketing management and organizational behavior are fairly new.

Both ethnocentrism and animosity are variables associated with the origin of a product. Ethnocentric consumers believe that buying foreign products hurts the domestic economy and national employment. Animosity refers to remnants of antipathy, or hostility towards a country (Jimenez and San Martin, 2010: 34-45).

Consumer ethnocentrism and consumer animosity are considered to have an influence on customers' perception of the goods and services offered. In fact, consumer animosity and consumer ethnocentrism have a negative effect on customers' repurchase intent to foreign products. But it is commonly known that there is a positive relationship between customer loyalty and repurchase intent. In this context, the goal of this study is to investigate the moderating role of customer loyalty on the relationships between consumer animosity - consumer ethnocentrism, and repurchase intent toward U.S. products.

Consumer Ethnocentrism

Ethnocentrism has a negative influence on the evaluation and purchasing intentions of consumers, although that may vary within cultures and between different country-of-origin products (Jiménez Torres and San Martín Gutiérrez, 2007: 6-7).

Shimp and Sharma (1987) apply ethnocentrism to the study of marketing and consumer behavior. They defined consumer ethnocentrism as a belief held by consumers on the appropriateness and indeed morality of purchasing foreign-made products. Consumer ethnocentrism implies the normative belief that purchasing domestic products is more beneficial than purchasing foreign goods.

Previous studies found that scores on the CETSCALE are related inversely to willingness to purchase imports, perceptions of the quality of imported goods, cultural openness, education, and income (Shimp and Sharma, 1987; Netemeyer et al., 1991). Particularly, consumers who hold strong ethnocentric beliefs are more likely to evaluate foreign products negatively than are those who do not hold such beliefs. Those who believe that it is wrong to buy foreign goods also tend to perceive those goods as lower in quality than domestic goods; ethnocentric consumers prefer domestic goods not only because of economic or moral beliefs, but also because they believe that their own country produces the best products (Klein et al., 1998: 92).

In the minds of ethnocentric consumers, the purchase of foreign-made products is wrong because it hurts the domestic economy, causes loss of jobs, and is unpatriotic. Therefore, it is anticipated that ethnocentric consumers tend to be biased towards domestic products (Evanschitzky et al. 2008: 9). Ethnocentric consumers will tend to reject people, symbols and values that are culturally dissimilar, while intra-cultural objects will become recipients of pride and attachment (Herche, 1994: 6).

Consumer ethnocentrism is positively related but distinct from consumer animosity. Klein and Ettensen (1999) suggest that consumer ethnocentrism contributes to a consumer's propensity to avoid buying foreign products in general, while animosity is directed towards a specific country (Rose et al., 2009: 331). However, there are limited numbers of studies on consumer ethnocentrism and repurchase intent to foreign goods and services in Turkey.

Consumer Animosity

With the growth of international trade, an increasingly diverse array of products of different national origins is now available in many countries throughout the world. This has resulted in greater interest in examining consumer attitudes towards products of different national origins. Because consumer ethnocentrism and consumer animosity substantially affect the multinational firms' investment decisions and foreign capital flows. Most research has been conducted in large industrialized countries such as the US, France, Germany, and China that have large internal markets and a wide range of domestic alternatives or brands in most product categories (Klein et al., 1998; Witkowski, 2000; Nijssen and Douglas, 2004; Bahae and Pisani, 2009). There are a few studies related with consumer ethnocentrism and consumer animosity in Turkey.

Consumer animosity is defined as the remnants of antipathy related to previous or ongoing political, military, economic, or diplomatic events – will have a direct, negative effect on consumers' purchase behavior in the international markets (Ettenson and Klein, 2005; Riefler and Diamantopoulos, 2007).

Consumer animosity refers to strong negative emotions toward purchasing products from a disliked nation or group. The majority of consumer animosity studies have examined the attitudes of the members of one nation towards the products of another nation (Rose et al., 2009: 330). Examples are numerous and range from reports of Jewish consumers avoiding the purchase of German-made products to the boycott of French products by Australian and New Zealand consumers because of the recent nuclear tests made by France in the South Pacific (Klein et al., 1998: 90). If consumers think a foreign nation damages their own country, they will be likely to show animosity towards that specific country. The emotional nature of animosity shows how international tensions can have repercussions on relationships between persons of different nationalities. That is, consumer animosity towards a country and their consequences are associated with political behaviour; consumers indirectly protest about international events. Both ethnocentrism and animosity would probably have some influence on consumer behaviour which is preceded by cognitive and affective aspects (Jiménez Torres and San Martín Gutiérrez, 2007: 4).

Witkowski (2000) studied U.S. consumers' animosity toward Chinese products and showed the negative impact of animosity on consumers' purchasing decision. Similarly, Ettenson and Klein (2005) analyzed the impact of Australian consumers' animosity on attitudes towards French goods: The results of study showed that Australian consumers' animosity toward France was negatively related to their willingness to purchase French products. On the other hand, Bahae and Pisani (2009) investigated the relationship between Iranian consumers' animosity and U.S. products. The results suggested that the antecedent demographic variables of education, age and foreign travel experience are inversely related to consumer animosity whereas women and students tend to hold greater consumer animosity feelings than men and non-students. Additionally they found a strong and significant inverse relationship between Iranian consumer animosity and intention to buy U.S.-made products. However, in Turkey, the studies about consumer animosity and repurchase intent to the goods and services of foreign countries are rather few in number.

Customer Loyalty

At the heart of many firm strategies is the desire to develop and to maintain close relationships with customers. Accordingly, the creation of customer loyalty is a strategic objective for most company in global competitive markets. As customer loyalty may act as a barrier to customer switching behavior, it has an impact on the development of a sustainable competitive edge.

Oliver (1997) defines it as "a deeply held commitment to re-buy or re-patronize a preferred product/service consistency in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior." Customer loyalty is a function of perceived product superiority, personal fortitude, social bonding, trust, emotional attachment, and their synergistic effects (Ogba and Tan, 2009: 135; Pitta et al., 2006: 422). Moreover, Hwang and Wen (2009) suggest that customer loyalty depends on positive word-of-mouth, a resistance to switching, identification with the service, and a preference for a particular service provider among competition. The benefits of customer loyalty to a provider of either services or products include lower customer price sensitivity, reduced expenditure on attracting new customers; and improved organizational profitability (Rowley, 2005: 574).

Loyal customers are customers who hold favorable attitudes toward the company, commit to repurchase the product/service, and recommend the product to others (Bowen and Chen, 2001: 214). Loyal customers are less likely to switch to a competitor due to a given price inducement, and these customers make more purchases compared to less loyal customers (Wong and Sohal, 2003: 497).

There is a positive relationship between customer loyalty and repurchase intent to foreign goods and services. In this study, it will be analyzed whether customer loyalty as a moderate variable will reduce or not the impact of customer ethnocentrism and customer animosity on the repurchase intent to U.S goods and services.

Repurchase Intent

In this study, repurchase intention is accepted as dependent variable. Repurchase intention (RI) is defined the individual's judgment about buying again a designated service from the same company, taking into account his or her current situation and likely circumstances (Hellier et al., 2003: 1764). RI is one of the most appropriate dependent variable in any system of relationships designed to develop management insight and improved strategic planning and service delivery. Customers' repurchase intent depends on the value obtained in their previous transactions such as: appropriate performance criteria (benefits), competition, cost considerations, customer satisfaction (Olaru et al., 2008: 555), mood and past experiences, affect and perceived value, convenience and customer familiarity (Hume, 2008: 354).

As we (it is) explained above, this study is needed because the researches relevant to the relationship between consumer' animosity, consumer ethnocentrism and repurchase intent are limited. In this context, this study examines the effects of consumer ethnocentric tendencies and consumer animosity on repurchase intent. The following hypothesis will be tested in this respect:

H1: Consumer ethnocentrism will be negatively related to repurchase intent.

H2: Consumer animosity will be negatively related to repurchase intent.

H3: Consumer ethnocentrism will be positively related to consumer animosity.

H4: Customer loyalty will moderate the relationship between consumer ethnocentrism and repurchase intent.

H5: Customer loyalty will moderate the relationship between consumers' animosity and repurchase intent.

-Figure 1 about here-

Methodology

The sampling consists of Turkish consumers in supermarkets in the province of Nevşehir in Turkey. Interviewers were used to distribute questionnaires to 500 subjects. Of consumers who responded, 208 provided useable questionnaires on all study variables for a response rate of 41.6 per cent. This rate is an acceptable response rate for this kind of study (Özgener and İraz, 2006).

Repurchase intent was designated as the dependent variable in this study while consumer animosity, consumer ethnocentrism were considered as the independent variables. We used a 17-item scale called CETSCALE (Consumer Ethnocentric Tendencies SCALE) to assess consumers' ethnocentric tendencies developed by Shimp and Sharma (1987). The CETSCALE is comprised of 17 Likert-type items anchored by 1 = strongly disagree and 7 = strongly agree. The 14-items CETSCALE instrument had reliability (Cronbach's alpha) of 0.93. Usually, a value of 0.70 in the Cronbach's alpha is considered adequate in order to ensure reliability of the internal consistency of a questionnaire (Nunnally, 1978).

Similarly, we used three-item war animosity and four-item economic animosity adapted from Klein et al. (1998) for measuring animosity. Also, we used a single-item to measure general animosity developed by Klein et al. (1998). This scale is reliable (0.94). On the other hand, customer loyalty was measured via a nine-item scale. The questionnaire was adapted from Taylor et al. (2004) and modified to fit the Turkish supermarket industry. Participants responded on a 5-point Likert-type scale dictating to the extent which they agree with each statement as it reflected their present work environment (1 = strongly disagree, 5 = strongly agree). The instrument had reliability (Cronbach's alpha) of 0.86.

For measuring repurchase intent, a four-item 5-point Likert scale (1 = strongly disagree, 5 = strongly agree) was adapted from Zeithaml et al. (1996), Cronin et al. (2000), Wang et al. (2004) and Pavlou (2003). The scale showed adequate reliability. The Cronbach's alpha coefficient was 0.94.

THE RESULTS

The demographic profiles of Turkish consumers are presented in Table 1. The sample consisted of 122 (53.5 percent) females and 106 (46.5 percent) males. 52.6% of those responding had less than 25 ages. 36.0 percent of the respondents were married and 64.0 percent were single.

In terms of education levels, 2.5% of the respondents had graduated from primary school, 45.2 % from secondary school, 30.0% from high school, 25.4% held Bachelor of Science degrees, and 12.7% had Master's degrees. Moreover, nearly half of the consumers had a foreign language (58.3%) and only 18.0 of the respondents had to travel abroad. As students represent a very large majority (41.7%) of the sample, we divided the occupation category into student and non-student.

When household income levels are taken into consideration, it is seen that the respondents to the survey are taken place widely in level of lower class (30.7 percent), lower middle class (38.2 percent), upper middle class (25.4 percent) and upper class (5.7 percent) of the sample. The 63.6% of the respondents had a monthly income between TL 577 and TL 2500.

-Table 1 about here-

This study proposed a model for empirically analyzing the relations between consumer ethnocentrism, consumer animosity and repurchase intent towards U.S. products. Table 2 reports means, standard deviations, correlations among variables, and cronbach's alpha coefficients. As predicted, consumer ethnocentrism was positively related to consumer animosity ($r=0.359$, $p<0.01$), supporting H3. However, both consumer ethnocentrism ($r=-0,214$; $p<0.01$) and consumer animosity ($r=-0,259$; $p<0.01$) were found to be negatively related to customer loyalty. Similarly, consumer ethnocentrism ($r=-0,378$; $p<0.01$) and consumer animosity ($r=-0,371$; $p<0.01$) were negatively related to repurchase intent. Thus, H1 and H2 were supported. Moreover,

customer loyalty was found to be positively related to repurchase intent at the 0.01 level. This result suggests that repurchase intent is largely a function of consumer loyalty.

-Table 2 about here-

Moderated hierarchical regression was used to test the hypotheses related to the constructs. Initially, the block of control variables were introduced into the model, followed by the appropriate independent and moderating variables. The variance inflation factors (VIFs) associated with each regression coefficient (ranging from 1,079 to 2,921) was all smaller than the suggested threshold of ten indicating that multicollinearity is not a problem (Morrow-Howell, 1994). In addition, correlations between variables ranged from 0.566 to -0.378 and were significant at a minimum level of 0.01. Given that none of the bivariate correlations was greater than 0.80, we can assume that multicollinearity is not a problem in data (Grewal et al., 2004).

In Model 1, control variables were entered in the analysis. The results in Table 3 suggest that the overall model was significant ($R^2=0.111$; $F_{(5,221)} = 5,499$; $p<0.01$). That means that 11.1% of the variance in repurchase intent was explained by the control variables. The results showed that only education had a significant effect on repurchase intent.

In Model 2, consumer ethnocentrism, consumer animosity and customer loyalty were entered in the analysis. Model 2 was statistically significant for repurchase intent ($R^2=0.439$; $F_{(8,218)} = 21,285$; $p<0.01$). As it can be observed, the regression coefficients representing the main effects of consumer ethnocentrism and consumer animosity on repurchase intent are negative and significant. The result showed that consumer ethnocentrism ($\beta= -0.155$; $p <0.01$) and consumer animosity ($\beta= -0.157$; $p <0.01$) were significant predictors of repurchase intent. But customer loyalty had a positive and significant effect on repurchase intent ($\beta= 0.503$; $p<0.05$). In model 2, consumer ethnocentrism, consumer animosity and customer loyalty explained additional 32.8 percent of the variance in repurchase intent.

-Table 3 about here-

Model 3 includes the interaction effects on repurchase intent. The results showed that Model 3 was significant ($R^2=0.491$; $F_{(10,216)}=20,877$; $p<0.01$). Model 3 showed that the interaction of consumer ethnocentrism and customer loyalty was positive and significant on repurchase intent ($\beta= 0.849$; $p< 0.01$). Thus, H4 was supported. That is to say, customer loyalty moderated only the relationship between consumer ethnocentrism and repurchase intent. However, the interaction of consumers animosity and customer loyalty had a positive but not statistically significant effect on repurchase intent ($\beta= 0,125$; $p>0.01$). Thus, H5 was not supported. Customer loyalty did not moderate the relationship between consumer' animosity and repurchase intent. The interaction term explained additional 5.3 percent of the variance in repurchase intent.

CONCLUSION

World economies are very much dependent on each other. When one economy suffers, it is unavoidable that other countries' economies will be affected by the crisis, which in turn affects international trade and multinational companies' behaviours. Moreover, when there is an economic and political crisis, it is possible that consumers give more priority to the purchase of local products. Therefore, international trade activities are becoming a central part of the world economy, and it is recognized that there is a greater necessity to predict consumers' attitudes toward both domestic and foreign products. Thus the relationships between consumer' attitudes (consumer animosity and consumer ethnocentrism) and repurchase intent are in need of investigation. Particularly, consumer animosity and ethnocentrism are strong in developing countries such as Turkey. However, little research has investigated the relationships between ethnocentrism and consumers' animosity toward foreign products in developing countries.

Consumer animosity and consumer ethnocentrism have gained considerable attention in strategic marketing literature as components of foreign product purchase behaviour. Through the results of this study, we contribute to a better understanding of how multinational companies may effectively overcome the complex problems or dilemma to consumer animosity and consumer ethnocentrism. Thanks to the findings of the

study, managers of multinational companies could do well to manage marketing efforts or at least not take severe steps that may be difficult to reverse.

This research investigated the impact of consumer animosity and consumer ethnocentrism on repurchase intent. Previous studies suggested that consumer ethnocentrism was positively related to consumer animosity (Rose et al., 2009). In parallel with the previous studies, we identified a significant and positive relation between consumer ethnocentrism and consumer animosity. However, both consumer ethnocentrism and consumer animosity were found to be negatively related to customer loyalty for the sampling. At the same time, consumer ethnocentrism and consumer animosity were found to be negatively related to repurchase intent toward U.S. products, which is consistent with the findings of Witkowski (2000), Ettenson and Klein (2005), and Bahae and Pisani (2009). The anticipated negative effect of attitude towards U.S. products was confirmed. Furthermore, customer loyalty was found to be positively related to repurchase intent.

According to the results of regression analyses, customer loyalty may not be an important moderating factor between consumers' animosity and repurchase intent toward U.S. products. However, the findings of this study show that customer loyalty has a moderator effect on the interaction of consumer ethnocentrism and repurchase intent toward U.S. products. Therefore, it plays a crucial role in providing repurchase intent

The overall results show that animosity and consumer ethnocentrism significantly affect the willingness to purchase U.S. products. That is, the findings of this study suggest that when deciding on purchasing a product, some Turkish consumers are less likely to consider products and services of U.S. companies. The present study also denotes that both consumer ethnocentrism and animosity have a negative impact on repurchase intent toward U.S. products in Turkey. This suggests that U.S. companies and multinational companies in Turkey should pay more attention to Turkish nationalistic tendencies.

The findings of this study need to be interpreted with the following limitations in mind. First limitation is that the results cannot be construed to be representative of all consumers in supermarkets around the world due to the highly limited nature of the sample. Second, because these findings may be subject to cultural and economics factors, there is also a need to replicate the study in cultural and economic contexts that differ from the present one. Third, the majority of the respondents could be reported drastic negative views due to U.S. supporter attitude of Armenia related to Turkish-Armenian political problems.

Future research should test the effect of perceived quality on the relationships between consumer animosity and repurchase intent. In addition, in the aspect of sampling respondents, this study selected only Turkish consumers in supermarkets in the province of Nevşehir-Turkey. Follow-up studies can extend this scope to other consumer groups. Finally, it would be interesting to test the proposed model in several product categories.

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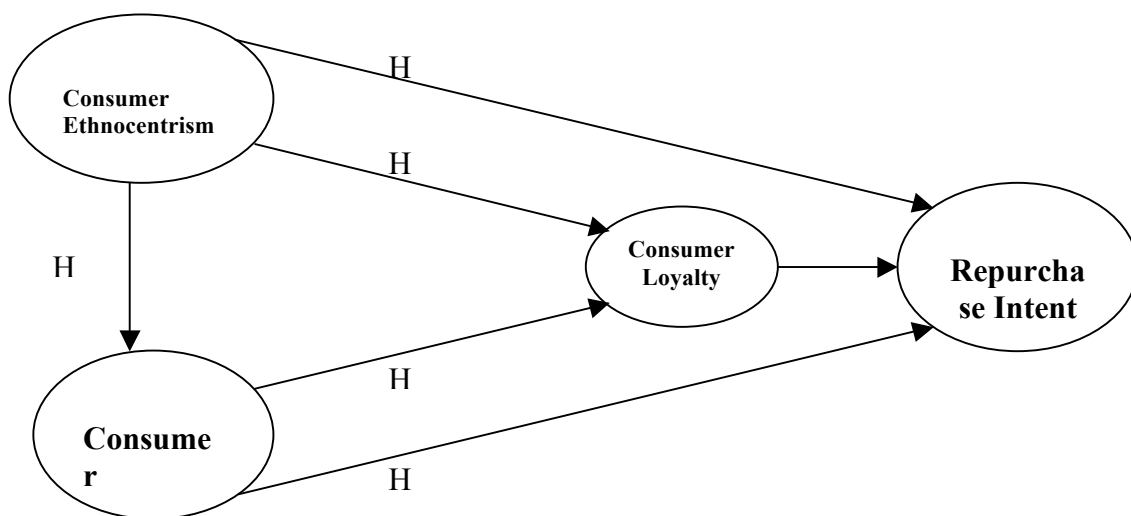


Figure 1: Research Model

Table 1: Descriptive Statistics of Turkish consumers

Demographic Characteristics	f	(%)	Demographic Characteristics	f	(%)
Gender			Education Level of Consumers		
Female	122	53.5	Primary school	8	3,5
Male	106	46.5	Secondary school	103	45,2
Marital Status			High school	30	13,2
Married	82	36.0	Bachelor's degree	58	25,4
Single	146	64.0	Master's degree or PhD	29	12,7
Age			Monthly household income level (Turkish Lira)		
Less than 25	120	52,6	Lower class (576 <)	70	30,7
26-30	40	17,5	Lower middle class (577–1500)	87	38,2
31- 35	24	10,5	Upper middle class (1501–2500)	58	25,4
36-40	24	10,5	Upper class (>2501)	13	5,7
31 or more	20	8,8	Occupation		
Average household size-number of people			Student	95	41,7
Less than 2	39	17,1	Non-student	133	58,3
3-5	146	64,0	Foreign Language Education of Consumers		
6-8	36	15,8	Yes	133	58,3
9-11	3	1,3	No	95	41,7
12 or more	4	1,8	Foreign Travel Level of Consumers		
			Yes	41	18.0
			No	187	82.0

Table 2: Descriptive statistics and intercorrelations among study variables

Variables	Mean	Std. Deviation	1	2	3	4
1.Consumer Ethnocentrism	3,19	0,84	(0.93)			
2. Consumer Animosity	3,45	0,82	,359(**)	(0.94)		
3. Customer Loyalty	2,07	0,71	-,214(**)	-,259(**)	(0.86)	
4. Repurchase Intent.	2,05	0,93	-,378(**)	-,371(**)	,566(**)	(0.94)

** Correlation is significant at the 0.01 level (2-tailed).

Table 3: The Results of Hierarchical Regression Analyses: The Effects of Consumer Ethnocentrism and Consumer Animosity on Repurchase Intent

Independent variables entered	β	S.E.	t-value	R ²	R ² Change
Model 1 F(5-221)= 5,499				0.111	
Age	,100	,071	,962		
Gender	,010	,122	,155		
Marital status	-,009	,201	-,087		
Education	,253	,061	3,295**		
Income level	,055	,077	,691		
Model 2 F(8-218)= 21,285				0.439	0.328
Age	-,138	,060	-1,591		
Gender	-,032	,098	-,612		
Marital status	-,065	,162	-,779		
Education	,127	,053	1,910		
Income level	,057	,062	,903		
Consumer ethnocentrism	-,155	,065	-2,625**		
Consumer animosity	-,157	,065	-2,726**		
Customer loyalty	,503	,072	9,083**		
Model 3 F(10-216)= 20,877				0.491	0.053
Age	-,066	,058	-,780		
Gender	-,079	,096	-1,534		
Marital status	-,007	,157	-,085		
Education	,108	,051	1,692		
Income level	,039	,059	,645		
Consumer ethnocentrism	-,731	,181	-4,448**		
Consumer animosity	-,344	,184	-2,115*		
Customer loyalty	-,529	,318	-2,172*		
Consumer ethnocentrism*Customer loyalty	,849	,081	3,630**		
Consumer animosity*Customer loyalty	,302	,085	1,216		
Notes: β indicates standardized regression coefficient. *p< 0.05; **p< 0.01					
Dependent variable: Repurchase Intent					

DETECTING CUSTOMER DEFECTIONS: AN APPLICATION OF CONTINUOUS DURATION MODELS

Sofia Portela
ISCTE Business School, Portugal

Rui Menezes
ISCTE Business School, Portugal

ABSTRACT

The considerable increase of business competition in the Portuguese fixed telecommunications industry for the last decades has given rise to a phenomenon of customer defection, which has serious consequences for the business financial performance and, therefore, for the economy. As such, researchers have recognised the importance of an in-depth study of customer defection in different industries and geographic locations. This study aims to understand and predict customer lifetime in a contractual setting in order to improve the practice of customer portfolio management. A duration model is developed to understand and predict the residential customer defection in the fixed telecommunications industry in Portugal. The models are developed by using large-scale data from an internal database of a Portuguese company which presents bundled offers of ADSL, fixed line telephone, pay-TV and home-video. The model is estimated with a large number of covariates, which includes customer's basic information, demographics, churn flag, customer historical information about usage, billing, subscription, credit, and other. The results of this study are very useful to the computation of the customer lifetime value

INTRODUCTION

Customer defection, *i.e.*, the customer's decision to terminate the relationship with a provider, is a major concern for fixed telecommunications firms in Portugal.¹ In fact, the considerable increase of business competition in the Portuguese fixed telecommunications industry over the last decades has given rise to a phenomenon of customer switching behaviour, and, thus, high customer churn rates, which has serious consequences for the financial performance of the firms and, therefore, for the economy. Several researchers have mentioned that customer churn is the main reason of profitability losses in the telecommunications industry, due to losses on current and potential revenues, marketing costs, and brand image (*e.g.*, Ahn *et al.*, 2006; Qian *et al.*, 2006; Zhang *et al.*, 2006).

As a consequence of this steady market growth, firms have been focused on customer acquisition and neglected customer retention. Nevertheless, the fixed telecommunications market is becoming saturated in Portugal and, as a consequence, the pool of "available customers" is limited and firms need to change their strategy from customer acquisition to customer retention (Hadden *et al.*, 2005; Hung *et al.*, 2006).

Customer retention became a buzzword in the 1990s, mainly due to the work of Reichheld and Sasser (1990), who firstly provided evidence about the advantages of customer retention. Even though their results are not consensual (see, for example, Carroll, 1991/92; Dowling and Uncles, 1997; East *et al.*, 2006; Gupta *et al.*, 2006; Reinartz and Kumar, 2000) they definitively caused a change in the marketing theory. Following this new paradigm, many firms have focused on retaining all customers. Nevertheless, many researchers argue that the retention strategy must be strongly linked with the customer lifetime value (*i.e.*, the expected net present value of the future cash flows of the customer - CLV), and, consequently, enterprises should not try to retain all of their current customers, because they are probably investing in unprofitable customers (Gupta and Lehmann, 2003; Jain and Singh, 2002; Malthouse and Blattberg, 2004; Thomas *et al.*, 2004), and, in this way, they are destroying value (Gupta and Lehmann, 2005; Jain and Singh, 2002) because (i) the retention of unprofitable customer is damaging to the firm, and (ii) the money wasted on the retention of unprofitable is not used on the retention of profitable ones, who are harder to get (Thomas *et al.*, 2004).

¹ By fixed telecommunications industry we mean firms that provide fixed-line telephone, internet, and pay-TV.

The customer churn issue is present both in studies about CLV as a component of CLV and on specific studies of churn, but in different perspectives. In studies about CLV, customer churn is mainly analysed in a theoretical way, whereas on the later case, the statistical models with empirical data are predominant. Furthermore, most studies which focus on CLV make strong assumptions about customer retention (*i.e.*, the opposite of customer churn), such as customer retention is constant over time (*e.g.*, Berger and Nasr, 1998; Blattberg and Deighton, 1996; Gupta and Lehmann, 2003; Gupta *et al.*, 2004;) and across customers (Hogan *et al.*, 2002). Nevertheless, the limitations of these assumptions are not recognised by all researchers.

Customer churn has been studied using different techniques, in different industries (*e.g.*, banking, insurance, telecommunications), and in different contexts (contractual *vs.* noncontractual settings, continuous *vs.* discrete time). Buckinx and Van den Poel (2005), Hadden *et al.* (2005), Reinartz and Kumar (2003), Song *et al.* (2004), and Van den Poel and Larivière (2004) present literature reviews of customer churn studies. The Appendix 1 presents a review of the literature about customer churn prediction in the TI in contractual settings and continuous time, which is the scope of this study. Ahn *et al.* (2006) point out that the reasons of customer churn and the customer behaviour towards churn need to be more studied.

Despite the large amount of research done on customer churn in mobile telecommunications, there are few studies applied to the fixed telecommunications industry and none applied to firms that provide bundled offers of fixed telecommunications services. Moreover, this issue has never been studied in Portugal. So, this study aims to develop a model of the residential customer churn in the fixed telecommunications industry in Portugal. Specifically, this study intends to estimate the probability of a given active customer cancels his/her relationship with the firm in the next period. Some of the specific areas where this model can help customer management are: *(i) a priori* knowledge about the probability (risk) of a given customer to cancel the relationship with the firm in the next period and, in this way, firms can take preventive measures to avoid the defection of potentially profitable customers, *(ii)* customer selection to retention programs; *(iii)* marketing resource allocation across customers; and *(iv)* computation of customer lifetime value.

METHODS

A continuous survival analysis will be used to understand the residential customer churn in the FT industry (contractual settings) in Portugal. Let T be a continuous non-negative random variable, which represents the survival time in days. Two key concepts in survival analysis are the survival and the hazard function. The survival function is the probability of an individual to survive beyond time t and the hazard function is the instantaneous potential per unit time for the event occurrence (customer churn), given that the individual has survived up to time t . Survival models can accommodate both the proportional hazards (PH) and the accelerated failure time (AFT) forms. PH models assume that the hazard rates of any two individuals are proportional over time and that the hazard ratio is constant over time, and as such, the effect of any covariate in the hazard function is constant over time. AFT models assume that there is a constant non-negative acceleration factor that stretches out or shrinks survival times. AFT models are linear models of $\ln(T)$.

Data were obtained from a Portuguese fixed telecommunications firm which presents bundled offers of ADSL, fixed line telephone, pay-TV and home-video. The database includes a random sample of 830 residential customers who completed a questionnaire about customer satisfaction. The available data contains a large number of covariates, which include customer's basic information, demographics, churn flag, customer historical information about usage, billing, subscription, credit, and other.

In this study, a customer is active if he/ she has currently at least one contract with the firm. In other words, for this analysis, a customer defects only when he/she stops buying all of the company services.

RESULTS

Model estimation

A Cox PH model was estimated in order to test the PH assumption based on Schoenfeld residuals. We found statistical evidence that the PH assumption does not hold ($p = 0.004$); so, AFT models will be used instead. As all AFT models are parametric models, the data distribution has to be postulated in advance. In order to decide which parametric model is more appropriate for our data, we adopted two statistical strategies as suggested by Cleves *et al.* (2004). As regards to the nested models, we estimated a generalized gamma model and we tested its free parameters. It can be concluded that there is statistical evidence that the model can be a

log-normal ($p = 0.141$) or a Weibull ($p = 0.670$) but not an exponential ($p < 0.01$). Then, with the purpose of examining all the models (nested and non-nested), we compared them based on the AIC. It seems that the model that best fit the data is the log-logistic, because it has the lowest AIC.

A log-logistic model with gamma-distributed frailty (unshared) was estimated in order to test the unobserved individual heterogeneity. There is statistical evidence that this effect is presented ($H_0: \theta = 0; p = 0.077$), and thus, it has to be included in the model, since it improves the results. The covariates are presented in table 1 and our final model is presented in table 2.

In AFT models, the estimated coefficients are interpreted taking the survival time as reference (Box-Steffensmeier and Jones, 2004). Thus, continuous covariates with positive coefficients have a positive effect on survival time (and, consequently, a negative effect on the hazard function) and those with negative coefficients negatively affects the survival time (Box-Steffensmeier and Jones, 2004; Cleves *et al.*, 2004).

Our results show that overall revenues positively affect the survival time, which is consistent with the results of Jamal and Bucklin (2006). Zhang *et al.* (2006) also found that the overall revenues from the last 6 months affects the survival time of customers. The results of the present study also appear to indicate that survival time increases as the monthly average of off-peak calls increase. Contrary to expectations, it seems that the value of current debts of the customer has a positive effect on survival time. This can be due to the fact that, until recently, the firm's policy was not stopping the service to customers with debts. Ahn *et al.* (2006) did not find any relationship between the value of current debts and survival time.

TABLE 1 – DEFINITION OF THE SIGNIFICANT COVARIATES

Covariates	Description
Gender	Gender of the customer (0 – female; 1 – male)
Total dunning	Total number of overdue bills since ever
Overall revenues	Total revenues from the customer since ever (in euros)
Debts	Value of current debt (in euros)
Value of off-peak calls	Monthly average of off-peak calls between December 2007 and November 2008 (in euros)
Telephone revenues	Monthly average of the revenues from the fixed-telephone service between December 2007 and November 2008 (in euros)
Internet revenues	Monthly average of the revenues from the internet service between December 2007 and November 2008 (in euros)

TABLE 2 – ESTIMATES OF THE LOG-LOGISTIC MODEL WITH GAMMA-DISTRIBUTED UNSHARED FRAILITY

	Log-logistic
Gender	.432 ***
Total dunning	-.439 ***
Overall revenues	.001 ***
Debts	.008 ***
Gender × Overall revenues	-.000 ***
Value of off-peak calls	.263 **
Telephone revenues	-.039 ***
Internet revenues	-.019 ***
constant	6.243 ***
Ln sigma	-2.466 ***
sigma	.085
Ln theta	.522
theta	1.685
Log Likelihood	-49.248
AIC	120.496

*** significant at the 1% level; ** significant at the 5% level

On the other hand, it seems that the total number of overdue bills (since ever), the monthly average of customer spending both on fixed-telephone and internet negatively affect the survival time. Even though

some authors have found similar evidence about the monthly revenues (e.g., Ahn *et al.*, 2006; Bolton, 1998; and Madden *et al.*, 1999), other found the opposite (e.g., Kim and Yoon, 2004). This indicates that customers are very sensitive to pricing.

The results of the present study also indicate that the survival time for males is larger than the one for females, which is consistent with Ahn *et al.* (2006) and Seo *et al.* (2007), but contradicts Kim and Yoon (2004) and Madden *et al.* (1999). Furthermore, it seems that the effect of overall revenues on survival time for females is larger than for males.

Contrary to our prior expectations, customer satisfaction is not a significant covariate, which suggests that customer satisfaction in this context is not a reason for customer churn. A possible explanation of this finding is that even though the customer is not satisfied, he/she may do not switch due to inertia or habit. This contradicts the majority of literature about satisfaction (e.g., Bolton, 1998; Eshghi *et al.*, 2007). Kim and Yoon (2004) found that whereas some types of satisfaction positively affects survival time, other do not have any influence. Van den Poel and Larivière (2004) present some studies that did not find any effect of satisfaction on survival time.

Moreover, results also appear to indicate that both the telephone and internet usage do not influence customer churn, which contrasts with the findings of Ahn *et al.* (2006), who found a positive relationship between usage and survival time. We also provide evidence that the payment method and the number of invoices in debt do not influence the customer churn. Nevertheless, Zhang *et al.* (2006) show that the payment method affects the customer churn.

Lastly, the results suggest that the customer retention rate is neither constant over time (the exponential model is the only one which hazard function is constant and this model does not definitely adequately fits the data) nor across customers (because the PH assumption is not satisfied), which contradicts a common assumption made by several researchers on the CLV computation, as mentioned above. Schweidel *et al.* (2008) also provide evidence that the hazard rates vary across customers. The hazard and survival functions of this model are presented in Exhibits 1 and 2, respectively.

EXHIBIT 1 – HAZARD CURVE

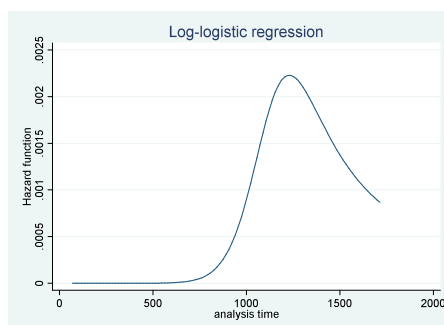
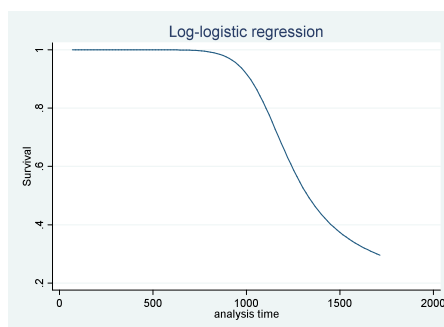


EXHIBIT 2 – SURVIVAL CURVE



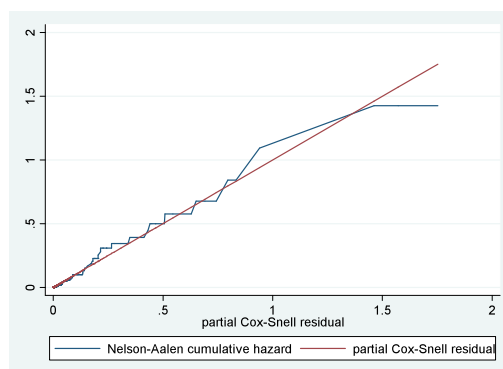
As can be seen from the analysis of the population hazard curve, there is duration dependence. In fact, the probability that a given mean customer cancels his relationship with the service provider increases as the

customer lifetime increases (for relationships with less than approximately 3.5 years), and then decreases. Different studies have also obtained duration dependence (e.g., Kim and Yoon, 2004; Schweidel *et al.*, 2008; Seo *et al.*, 2007; Zhang *et al.*, 2006).

Goodness-of-fit

The goodness of fit of the model is tested by plotting the Nelson-Aalen cumulative hazard estimator for Cox-Snell residuals, which is presented in **Error! Reference source not found.3**. From the analysis of this graph, it can be concluded that the model adequately fits the data.

EXHIBIT 3 – CUMULATIVE HAZARD OF COX-SNELL RESIDUALS



CONCLUSIONS

This study sheds new light on the crucial issue of customer churn in the FT industry in Portugal. Considering that it is crucial to prevent the churn of profitable customers in order to ensure the financial performance of these firms, the results of this study are very valuable mainly when complemented with an analysis of the CLV for each individual.

These results have a number of managerial implications. Firstly, firms cannot make decisions about customer management based on the average churn rates. Secondly, it appears that firms should concentrate less on customer satisfaction because it does not seem to be an important reason of customer churn, and instead focus on pricing strategy.

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APPENDIX - SUMMARY OF THE LITERATURE REVIEW ON CUSTOMER CHURN IN THE TI IN CONTRACTUAL SETTINGS AND CONTINUOUS TIME

Scope of the study		Industry	Region	Technique
Ahn <i>et al.</i> (2006)	<ul style="list-style-type: none"> - Development of a comprehensive churn model of private users - Analysis of the mediating effects of a customer's partial defection on the relationship between the churn determinants and total defection 	Mobile Telecommunications	South Korea	Logistic regression
Bin <i>et al.</i> (2007)	Churn prediction	Personal handyphone system service	China	Decision trees
Bolton (1998)	<ul style="list-style-type: none"> - Develop and estimate a duration model focused on the effect of customer satisfaction 	Mobile Telecommunications	n.a.	- Survival analysis
Bonfrer <i>et al.</i> (2007)	<ul style="list-style-type: none"> - Estimate the customer churn - Examination of these models in the CLV calculation 	Mobile Telecommunications	China	<ul style="list-style-type: none"> - Arithmetic Brownian motion - Geometric Brownian motion
Burez and Van den Poel (2007)	<ul style="list-style-type: none"> - Development of the three different churn-prediction models - Targeting of customers - Analysis of three different customer retention strategies 	Pay-TV	Europe	<ul style="list-style-type: none"> - Logistic regression - Markov chains - Random forests
Burez and Van den Poel (2008)	<ul style="list-style-type: none"> - Investigate churn using both static and dynamic churn prediction models - Separate financial from commercial churn 	Pay-TV	Europe	<ul style="list-style-type: none"> - Survival analysis – KM (dynamic) - Random forests (static)
Eshghi <i>et al.</i> (2007)	Investigate the propensity to switch wireless service providers	Mobile Telecommunications	US	Structural equation model
Hung <i>et al.</i> (2006)	Compare various data mining techniques that can assign a “propensity-to-churn” score periodically to each subscriber	Mobile Telecommunications	Taiwan	<ul style="list-style-type: none"> - K-means clustering - Decision tree - Back propagation neural networks
Jamal and Bucklin (2006)	<ul style="list-style-type: none"> - Develop a survival model to predict customer churn - Study the link between customer churn and some factors 	Direct-to-home satellite TV	South America	Survival analysis
Kim and Yoon (2004)	Identify the determinants of customer churn and loyalty	Mobile Telecommunications	Korea	Binomial logit

Scope of the study		Industry	Region	Technique
Lemmens and Croux (2006)	Analyse if the bagging and boosting classification techniques outperform the binary logit model in predicting churn (predict if a subscriber churn in the next 31 to 60 days)	Mobile Telecommunications	US	- Logistic regression - Bagging - Stochastic gradient boosting
Madden <i>et al.</i> (1999)	Analyse the probability of subscriber churn (residential users)	ISP	Australia	Binomial probit
Mani <i>et al.</i> (1999)	Modelling the duration of the customer relationship with a service provider	Mobile Telecommunications	US	- Classical survival analysis - Neural networks for survival analysis
Mozer <i>et al.</i> (2000)	- Explore statistical techniques for churn prediction (in the next 2 months) - Evaluation of how these predictions could be used for decision making - Identify customers to whom incentives should be offered to increase retention	Mobile Telecommunications (multi-service subscribers)	US	- Logistic regression - Nonlinear neural networks
Neslin <i>et al.</i> (2006)	Identify which methodological approaches work best for predicting customer churn (in the next 3 months)	Mobile Telecommunications	n.a.	- Logistic regression - Decision trees - Neural networks - Discriminant analysis
Qian <i>et al.</i> (2006)	Profile customer behaviour in order to identify and capture churn activity patterns	Telecommunications	n.a.	Functional mixture model
Schweidel <i>et al.</i> (2008)	Modelling customer retention within and across cohorts	Telecommunications	n.a.	Survival analysis
Seo <i>et al.</i> (2007)	Understanding the factors related to customer retention behaviour	Mobile Telecommunications	US	- Logistic regression - Hierarchical linear model (HLM)
Wei and Chiu (2002)	Churn prediction (in the next month)	Mobile Telecommunications	Taiwan	Decision trees
Zhang <i>et al.</i> (2006)	Churn prediction (in the next month)	Fixed-line telephone	China	Several data mining techniques (decision trees, neural networks, and regression)

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MOBILE MARKETING OPPORTUNITIES VIA 3G MOBILE COMMUNICATION TECHNOLOGY

Volkan Polat, Fatih Geçti, Mesut Çiçek
Yalova University, Turkey

ABSTRACT

Mobile devices have been diffusing rapidly into our life. This diffusion allows companies to reach customers without location or time barriers. In recent years, mobile services have been demanded intensively. 3G (Third Generation), which is the transmission of data to mobile handsets at high speeds, is one of the latest mobile services. 3G services offer many marketing opportunities for businesses. The objective of this paper is to discuss the mobile marketing opportunities provided by 3G mobile communication technology. This paper reviews existing literature related to mobile marketing and examines the application examples of 3G. The findings provide insights for practitioners working on this field.

Key Words: *mobile marketing opportunities, 3G, mobile communication technology*

INTRODUCTION

The scope of marketing and fields of marketing applications have changed and developed by years. Increased competition has forced the institutions to use various ways and channels for gaining strategic advantages. With the new opportunities created by technological innovations, new ways have been opening in reaching the customers. In parallel with the existence of portable communication equipments and increased number of clients, whether profit seeking or not, mobile marketing activities have been existing in the marketing strategies of the institutions. These mobile marketing activities have been gaining their power from mobile communication technologies. For the last couple of years, one of the hottest topics in communication has been mobile communication technology. 3G, which refers to the third generation of telephony and follows the earlier generations (1G, 2G, 2,5G), is a kind of mobile communication technology. At this point, the main purpose of this paper is to discuss the marketing opportunities and advantages of 3G mobile communication technology in different dimensions and to shed light on the analyzers working on this area. To achieve this aim, we used secondary data resources related to mobile communication technology.

The paper is organized as follows; we firstly describe the research methodology. Secondly, we provide a literature review on mobile marketing. Thirdly, we mention about mobile communication technology and its evolution. Finally, we discuss mobile marketing opportunities created by 3G technology and the advantages offered by it.

RESEARCH METHODOLOGY

In this study, it is aimed to obtain deep and detailed information and data concerning marketing opportunities provided by 3G technology and to make the issue more senseful on various dimensions. In this respect, the applications of 3G mobile communication technology within the field of mobile marketing and its marketing opportunities have been discussed. The research has been studied on the base of secondary sources on mobile communication technology and mobile marketing applications. These secondary sources consist of data from articles, journals, books and internet pages related to the issue.

The research strategy adopted can be classified into three stages:

- The necessity of a broad literature review concerning mobile marketing to discuss the opportunities brought by mobile marketing has been noticed.
- The significance of mobile communication technologies is comprehended. In this context, mobile communication technologies, their characteristics and evolution stages of them have briefly been denoted.
- Questions such as “What kind of mobile marketing opportunities are created via 3G technology when considering current applications? What kind of advantages can 3G technology offer to subscribers?” have been tried to be answered.

A LITERATURE REVIEW ON MOBILE MARKETING

Before conducting the conceptual research about mobile marketing opportunities, we need to clarify what mobile marketing is. Many authors and institutions have offered a variety of definitions of mobile marketing up to date. Although plenty of definitions of mobile marketing exist, we used the commonly accepted definition provided by the Mobile Marketing Association (MMA) which is the premier global organization that strives the growth of mobile marketing and its associated technologies.

Mobile Marketing Association defines mobile marketing as a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network (Mobile Marketing Association, 2010). Articles and researches related to mobile marketing are scattered across various publications especially business and information technology journals. There are many studies examining the topic of mobile marketing in terms of different perspectives. In reference to the literature, we have realized that the researches in connection with mobile marketing have shed light on some streams such as customer relationship management (CRM), short message service (SMS) marketing, advertising, permission based marketing, consumer perceptions, consumer acceptance etc.

Several researches have addressed the issue on SMS and mobile messaging services related to mobile marketing. Dickinger et al. (2004) discussed SMS which belong to the first and one of the most successful forms of mobile data transmission. This paper helped us to gain insight of SMS marketing and its applications. Bamba and Barnes (2007) examined the phenomenon of consumers’ willingness to give permission to SMS advertisement. We came to know from the paper that consumers’ perception of SMS ads were rather negative. Okazaki and Taylor (2008) examined the factors associated with the intention of multinational corporations operating in Europe to implement SMS advertising. According to their research, managers from the EU, the US and Japan will be more likely to adopt SMS advertising if they perceive it has the ability to help build the brand. Mafe *et al.* (2010) analyzed the key drivers of consumer acceptance of SMS to participate on television programmes in different countries. The paper helped us to know that while perceived value, attitude and affinity towards television programmes determined SMS acceptance to participate in television programmes in Spain, subjective norm, perceived value and attitude were the key drivers of SMS acceptance in Colombia.

Some papers have concentrated on mobile customer relationship management (m-CRM). Ranjan and Bhatnagar (2009) firstly presented a conceptualization of m-CRM in respect of data mining, then developed the empirically grounded framework of m-CRM from data mining perspective. Customer care information center, data store and access systems and mobile services and technology were identified as three critical issue from this paper. Valsecchi *et al.* (2007) estimated the size of the Italian market for mobile customer relationship management services and then evaluated some benefits which can be obtained via the use of m-CRM applications by companies. The improvement of customer satisfaction, an increase in the efficiency of internal process and an increase in revenue were found as the main benefits through the paper. Lee and Jun (2007) empirically validated the mobile commerce consumer’s repurchase intention model. The paper helped us to understand that the proposed model could serve as an initial blueprint for understanding of contextual marketing offer on consumer retention in m-CRM perspective. Sinisalo *et al.* (2007) assessed the underlying issues and challenges facing companies when moving towards m-CRM. According to their research, the proposed framework identified exogenous, endogenous and m-CRM specific issues that the company take into account when moving towards m-CRM.

Some scholars have focused on permission based marketing in the context of mobile marketing. Akbiyik *et al.* (2008) examined the applications of permission based marketing in the area of mobile marketing. The paper helped us to understand how consumers perceived the applications of mobile marketing. Jayawardhena *et al.* (2009) conceptualized how trust, experience and perceived control affect the customers' willingness to provide companies with personal information and permission to use it in mobile marketing. Institutional trust was found as the main factor affecting the consumers' decision to participate in mobile marketing through the paper. Karjaluo *et al.* (2008) tested the impact of the different sources of trust and control on the customer's willingness to provide permission and personal information for mobile marketing purposes in a previous study by Kautonen *et al.* in 2007. According to their research, the company's presence in the media in the form of advertisement was the most important factor.

Several researchers have concentrated on the field of mobile advertising related to mobile marketing. Okazaki (2008) addressed the role of trust in mobile advertising acceptance. The paper helped us to understand that trust in mobile advertising and in the brand both directly and positively affect attitude toward the ad, which in turn determine attitude toward the brand. Tahtinen (2005) found a term that covers the essential elements of mobile commercial communication. The paper helped us to clarify the meaning of mobile marketing and mobile advertising. Lappaniemi *et al.* (2004) talked about the success factors of mobile advertising value chain. They developed 5C model (content, cross-media marketing, campaign management, customer database, carrier cooperation) describing the critical success factor of mobile advertising value chain. Tanveer *et al.* (2007) presented an enabling advertising technology which uses wireless medium for transmitting content. They also illustrated a framework of such system with all components. Haghirian *et al.* (2005) firstly discussed the relevance of mobile advertising value of mobile marketing, then investigated how perceived advertising value of mobile marketing can be increased. The paper showed us that the message content was of greatest relevance for the perceived advertising value, while a high frequency of message exposure had a negative impact on it. Merisavo *et al.* (2007) examined the drivers of consumer acceptance of SMS based mobile advertising. They found that utility and context were the strongest positive drivers of consumer acceptance of mobile advertising.

Some specific fields of research have focused on consumer perception of mobile marketing. Roach (2009) examined consumer perceptions of mobile phone marketing. According to her statistical analysis, a consumer's perception of two of three innovation tested were significantly associated with their acceptance of marketing messages sent via their mobile phones. Gurau and Ranchhod (2009) provided a comparison of mobile consumer's perceptions regarding privacy issues in three different national and cultural context. The paper showed us that the country of origin and the personal profile of users were influences their perceptions concerning privacy threats in the mobile commerce environment.

Some studies have mentioned about mobile marketing campaigns and their success. Scharl *et al.* (2005) investigated one of the most successful forms of mobile marketing communication, SMS, via qualitative and quantitative analyses. The paper helped us in understanding the diffusion of SMS technology. Leppaniemi and Karjaluo (2005) examined mobile marketing strategy development and proposed a framework for addressing key issues in mobile marketing campaign planning and implications. The paper guided us to understand how mobile marketing should be integrated into the firm's overall marketing communication strategy. Pousttchi and Wiedeman (2006) examined several case studies in order to identify relevant characteristics of mobile marketing campaigns. Information, entertainment, raffle and coupon were the four mobile marketing standard types derived through the paper.

Consumer acceptance and consumer responsiveness are also among the key issues in mobile marketing applications. Bauer *et al.* (2005) investigated the factors inducing consumers to accept mobile phone as a means of communicating promotional content. The importance of embodying mobile marketing messages and campaigns according to consumer entertainment and information requirement were known from the paper. Heinonen and Strandvik (2003) explored consumer's responsiveness to mobile marketing communication varied consumers. Promotion is one of the most important instruments for a company's marketing activities. Some papers emphasized on marketing communications which are about the promotion of the company. Karjaluo *et al.* (2004) investigated the role of mobile marketing in companies' promotion mix. According to their research, mobile medium was a growing two way marketing medium.

The study of above literature helped us in gaining information related to mobile marketing and its applications.

MOBILE TELECOMMUNICATION TECHNOLOGY AND ITS EVOLUTION

First mobile telephony used in 1920's. Mobile telephony began to be used on an experimental basis by several police departments in the USA in 1920's. Technology had reached some success with maritime vessels. But equipments and the radio technology were not able to work on land communication. With the development of frequency modulation (FM) in the 1930's, which helped in battlefield communications during the World War II. The first radio telephone service was used to connect mobile users in cars to the public fixed network in the USA at the end of the 1940's. Improved Mobile Telephone Service (IMTS) brought many improvements like direct dialing and higher bandwidth, which was launched by Bell Systems in the 1960's. The first analog cellular systems were based on IMTS. Systems coverage areas were split into smaller areas, each of which is served by a low power transmitter and receiver (Smith and Collins, 2002; International Telecommunication Union, 2010). The phases that mobile communication technology has gone through are briefly explained below.

1G

Analog system for mobile communications as we know it today really started in the 1970's, with the implementation of a trial system in Chicago in 1978, but actually appeared in the 1980's (Smith and Collins, 2002). The first generation (1G) used analog transmission techniques or traffic (Korhonen, 2003). There were several system standards. The most known technologies are;

- Advanced Mobile Phone Service (AMPS)
- Nordic Mobile Telephony (NMT)
- Total Access Communications System (TACS)

There were also a number of other propriety systems, rarely used outside the home country. Generally, AMPS, NMT and TACS are still in use but, especially in countries have more advanced telecommunications technology, will soon be closed, or already have been, as they waste valuable frequency spectrum that could be used in a more effective way for newer digital networks (Korhonen, 2003; Smith and Collins, 2002; International Telecommunication Union, 2010).

2G – 2.5G

Analogue radio networks were replaced with digital networks in 1990's. Main difference between first and second generation is the digital/analog split (Korhonen, 2003). The 2G systems have higher capacity, greater security against fraud and more advanced services (Smith and Collins, 2002). There are four main standards for 2G systems;

- Digital AMPS (D-AMPS)
- Global System for Mobile (GSM)
- Codedivision Multiple Access (CDMA)
- Personal Digital Cellular (PDC)

2.5G systems include upgrades but differences between 2G and 2.5G are not clear (Korhonen, 2003). So, it is difficult to say 2.5G has a radical change. 2.5G includes following technologies;

- High-speed Circuit-switched Data (HSCD)
- General Packet Radio Services (GPRS)
- Enhanced Data Rates for Global Evolution (EDGE)

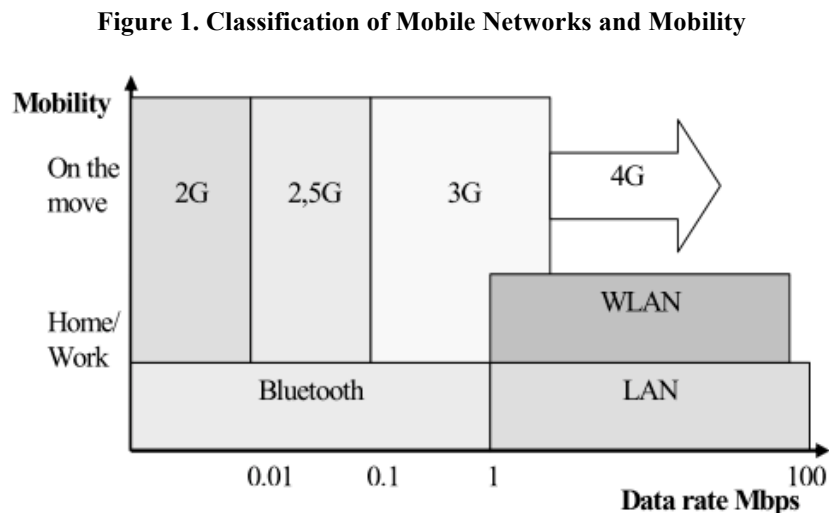
3G

Definition of 3G is not so simple, because 2G has been deployed throughout the world and has great capability and performance for data services (International Telecommunication Union, 2010). The basic 3G standards were developed by the private sector but International Telecommunication Technology Union (ITU) has adopted International Mobile Telecommunications 2000 (IMT-2000) to formally standardize the already developed 3G wireless flavors (Garber, 2002). The IMT-2000 has led to recommendations such as user bandwidth (144 kbs for mobile service and up to 2 Mbps for fixed service), multimedia services and flexible networks that can support small or large number of subscribers (Smith and Collins, 2002). ITU selected five technologies for terrestrial service in 1999. These are;

- Wideband CDMA (WCDMA)
- CDMA 2000 (an evolution of IS-95 CDMA)
- TS-SDCMA (time division-synchronous CDMA)
- UWC-136 (an evolution of IS-136)
- DECDT

3G has increased bandwidth, reinforced speed and efficient of data transmission (Kuo and Yen, 2009). Because of that subscribers can use devices to reach more multimedia contents and streaming services (Hartung *et al.*, 2007). The shift from 2G to 3G gives users fresh ways to communicate but also several types of new services such as digital television, e-mail instant messaging, browsing the internet, video conferencing (Karjaluto, 2006). 3G technologies are the latest cellular networks that have data rates 384kbit/s and more (Cho, *et al.* 2007). As a matter of fact that the world is now busy moving into 3G networks. 3G users are about 500 million (GSA, 2010).

The Figure 1 shows us the classification of mobile networks and mobility.



(Karjaluto, 2006:93)

MOBILE MARKETING OPPORTUNITIES VIA 3G

Functions of marketing and marketers' point of view on marketing have changed in time. Increase in the market dynamics, rapid changes on the customers' preferences and expectations are among the main factors that cause change of marketing's focal point. The evolution of the marketing concept also shows itself in the field of marketing applications. From the point of view, it can be said that developments in the mobile telecommunication technology affect the mobile marketing implications. Table 1 shows us the evolution of marketing concept in mobile communication sector.

Table 1. The Evolution of Marketing Concept From 2G to 3G

From 2G	To 3G
Technology focus	Customer focus
Acquiring new customers	Reducing churn
Selling handset	Selling services
Treating all equally	Targeted marketing
Minutes of use	Lifetime value
Do it yourself	Do it with partners
Revenue	Profit

(Ahenon et al. 2004)

As it is seen in the Table 1, with the 3G technology, there is a transition to different marketing concept that takes the customers to the focal point, provides life-time value to the customers and gives opportunities to the customers to involve the services.

It is not possible to distinguish the 3G services and its marketing opportunities from the previous generations and the offerings provided by standard internet connection. Most of services and applications were partly tried or used previously, but there are some missing parts and these parts became an impulsive force in order to improve new technology. This impulsive force caused the creation of new opportunities that are provided by 3G technology. In this section, some mobile marketing opportunities, which are provided by 3G technology, towards some of the basic marketing concepts such as segmentation, product&service, promotion, place and pricing have been discussed. Besides advantages brought by 3G technology are enriched with application examples.

Segmentation

Segmentation is the starting point of marketing activities. The objective of segmentation is learning enough about customers to be able to target the offering, and extract the best possible price from any distinct group of customers (Ahenon, 2002). Considering the advanced mobile services arena of 3G and the vast numbers of customers, segmentation is a key tool to deliver targeted marketing activities. The poorly designed segmentation limits the chances for the company to succeed, while powerful segmentation will deliver competitive benefits through the organization (Charalampos and Vasiliki, 2004). If the mobile operator and its content partners do not use strong segmentation tools, they are destined to fail in the competitive marketplace, in delivering desirable services, in tariffing for revenues and in delivering profits (Ahenon, 2002).

There are different segmentation types in mobile marketing. Ahenon (2002) suggested Five-Dimensional Segmentation Model. All dimensions in the model can be used independently. Figure 2 shows us the five-dimensional segmentation for mobile operators.

Figure 2. Five-Dimensional Segmentation Model

Ownership: 'Company phone', 'Own phone', 'Second phone', 'Parents' phone'
Geographic: 'Jetsetter', 'Driver', 'Mover', 'Commuter', 'Homer'
Pattern: 'Sponsor', 'Initiator', 'Receiver', 'Avoider', 'Call-Backer'
Timing: 'All timer', 'Day caller', 'Evening caller', 'Expat returner'
Contacts: 'Few contacts', 'Many contacts', 'Random contacts'

(Ahenon, 2002:231)

As it is seen in the Figure 2, it is possible to say that this model examines just the needs of customers for voice services and messaging. However, video transferring opportunity which is one of the most important features provided by 3G technology is not taken into consideration in this model.

Rapid changes in the customer needs and expectations cause a decline in the effectiveness of mass marketing. Therefore, companies have tried to find more sensitive and flexible marketing tools. Formerly, general segmentation activities were used for mass customer groups. In order to manage that they used expensive, long term surveys, focus groups and other analyses. Although PC's and notebooks are considered as customized tools, these products can also be used by other people. Mobile devices are the most personalized tools for people and rarely can be used by others. 3G technology provides companies micro segmentation opportunities which they seek in order to reach their customers accurately.

Operators and their partners have already known their customers' demography such as gender, age, occupation. Every service and application that is used by the customer gives detailed information to the operators automatically. For example, a subscriber who hires a football match over 3G, can give information about which football team he supports. In addition, by analyzing which news channels he is watching via his 3G mobile phone, supplies information about what kinds of news he is mostly interested in. Thus, mobile marketing strategies can be formed according to these micro segments. The observability of every customers' individual TV programme preference provides very valuable and important marketing opportunities to the advertising agencies and companies who want to reach niche segments with minimum budget. However, this advantage can not be offered by other media tools. It is also possible for companies to track their customers who carry 3G devices permanently. Customers can be tracked by other communication devices, but the feature making 3G special is that 3G is totally personalized.

Product&Services

One of the most important goals of the marketing managers is creating value to customers. In today's business market, almost all the companies have similar services and products. So, in order to differentiate themselves, companies must provide potential services (Berman and Evans, 2009).

Video customer service is a kind of potential service which the customers do not expect and even are not aware of this service. This service is just possible via 3G technology and provides customers to make a video call to the company's customer services. Customers can see the responsible person and better express their problems. Also, the customer services get several advantages of providing video customer services.

These advantages are (Turkcell, 2010);

- Creating more effective and faster solutions by showing demos to customers who have technical problems
- Increasing the product awareness by showing product ads to the customers who are waiting on the line
- Decreasing the service duration by providing voice menu instead of voice menu.

Barcode reader application is another product&service solution provided by the usage of 3G technology. For example, i-nigma's barcode reader application enables mobile users to access a predefined URL on the mobile web, or to trigger web services by scanning Data Matrix and QR barcodes displayed on various forms of media such as printed media, billboards, digital screens etc. Once scanned, barcodes direct phones to information and promotional offers hosted on the mobile web eliminating the need to enter long mobile web addresses or response details (I-nigma, 2010).

There are many marketing opportunities and benefits created by this application for media and marketing companies. These are (I-nigma, 2010):

- i-nigma's barcode-creation, campaign management and advanced monitoring and reporting tools improve advertising campaign performance, from planning through to execution and monitoring the success of a mobile campaign. This drives more relevant campaigns, providing deeper audience engagement and better return on investment and return on marketing objectives.

- It is possible for advertisers and brand owners to start running ads immediately while advanced targeting options and real-time success metrics on barcode usage provide valuable insight on campaign progress. These tools and valuable reports allow marketers to fine-tune campaigns at any time during their lifecycles in order to maximize performance.
- The i-nigma solution can be hosted either by 3GVision or by mobile service providers, who can generate significant revenues by offering unique advertising campaigns to publishers and advertising agencies. The solution is available in the form of preloaded clients, downloaded clients or both, branded or customized client applications, branded or customized server.
- Powerful mobile advertising campaign management capabilities to drive more relevant campaigns, deeper audience engagement and better ROI and Return on Marketing Objectives.
- Real-time reporting and detailed insights on mobile barcode campaign performance metrics, providing better understanding of customers response to multiple campaigns.

3G technology provides some applications which are cheaper than the other standard technologies for the companies. For example, VoIP is an application that assures phone call on internet. Formerly, it could be used only in mobile devices with wi-fi features and wi-fi inclusion fields. Thereto, it will be possible to make VoIP calls via 3G without any necessity for wi-fi point. Thereby, whether national or international, phone calls will be cheaper all around the world. This may create an opportunity for the companies that provide cheaper VoIP services to the users. This opportunity may also expand the companies' market size.

Promotion

Promotion is one of the key elements of marketing. There are many tools which constitute the promotion mix. The promotion mix provides the means to by which brands and organizations are presented to their audiences with the goal of stimulating a dialogue leading to a successful purchase. Each promotional tool is used in different ways to develop relationship with customers (Karjaluoto *et al.*, 2004:112). Some mobile promotion tools of which 3G technology has been used and the opportunities and advantages brought by them have been discussed below.

Mobile portals – First usage of mobile services has generally been via portals. On fixed internet lines, the firms can present detailed information concerning their products and services via portals. Although mobile portals do not contain as detailed information as fixed internet lines, it has been a place of any time-available and confidence renewable to its brand. Besides, it is not recommended to be much rich and detailed content for mobile portals. Because, an increase of quantity of downloaded files and therefore time is not perceived with pleasure for the user. After 3G, portals have a distinguished characteristic of consisting of more multimedia and interactive contents.

Mobile portal of Mercedes-Benz could be an example for that. There are four sections in the portal; New Vehicles, Brand World, Entertainment, as well as Service and Contact, have been joined by additional entertainment platforms such as Mercedes-Benz TV and the music download service Mercedes-Benz Mixed Tape. Users can watch features on the five different web channels lifestyle, vehicles, motor and sports, history and legends and innovation. Once every eight weeks, new compilations for downloading mp3 files to cell phones are available on Mixed Tape (Mercedes Benz, 2010).

Location based advertising – LBA contains the system of providing data to people concerning any places such as restaurants, theatres and etc. Close to them and vocal warning especially within the usage of GPS (Global Positioning System) and GPS-type devices. Albeit some debates on the ethical dimension, the gaining in respect of advertisement would be high.

For instance, when people travel to new places, they may not know where to rest, where to eat etc. In this situation, they are able to search the closest shops, restaurants, hotels via their 3G mobile phones and they can see the exact location of these businesses. In order to turn this opportunity into a successful marketing strategy, companies should apply to the operators or their partners for being found when the potential customers make a search. This can help businesses increase their sales and affect their image positively.

Viral marketing - Users can spread the information related to the products and services they benefit to the other users via 3G technology. Since 3G technology increase the usage proportion of the social media sites, this increase the brand awareness or brand image of the companies who mostly focus on social media promotions.

Video Ads- Companies can send their video ads to their customers via 3G technologies. On TV ads, reach rate is not so high (Mobil İletisim, 2010). Consumers do not always watch the same channels and same programmes, therefore high percentage of TV ads can not reach to the customers and that cause waste of money. But video ads directly go to the owner of the phone whose demography have already known. Thus, this feature provided by video ads creates a segmented promotion opportunity for companies.

Pricing

One of the problems in pricing is the question of how the payment will be finalized. The payment methods created via 3G technologies and the advantages provided by these methods have been presented below with examples.

There are opportunities of using the cell phones as a means of payment through 3G. The firms that supply such service provide convenience to their users, thus giving them the opportunity to create extra value. Turkcell's new mobile payment system which is planned to be online soon, can be an example. Turkcell's mobile payment system, enables its users make online payment in the fastest way via their 3G mobile phones without credit card or money transfer. This system is an alternative payment system (Turkcell, 2010).

Square is a mobile payment technology. This technology provides an opportunity to receive the payments via 3G mobile phones whereby a card sweeper which is connected to the phone's earphone jack. In addition, companies can have information about the past purchases of the customers who use Square technology and customers make the purchases in safe by using picture verifying technology (Squareup, 2010).

Place

3G connects many devices to the world not only via mobile phones and PDA (Personal Digital Assistant) but also via internal and external 3G modems. Laptops with connection via wi-fi or fixed internet lines, game consoles will also be able to have internet connection via 3G.

For example, with project "Sido24", which was awarded in the contest of Turkcell named with 3G service, it will be possible for users to listen music in anywhere and get advertisement with personal advertisement platform without any necessity of downloading mp3 to the phones (Mobilasyon, 2010).

It could be mentioned about paid TV channels as another product sample. As a matter of fact, because these channels are 'paid', people who does not stay at home does not tend to prefer these channels. But, because 3G technology provides the opportunities to reach these channels at anywhere and any time, it is anticipated that these channels are to be much preferred here after. This brings opportunity to reach more customers for the firms operating these channel services. For instance, a channel on football matches named Lig TV, of a digital broadcasting system called Digiturk, brings the opportunity for owners of mobile phones compatible with Turkcell Mobile TV to watch the matches and sport news on their mobile phones. In this way, by 3G technology, the firm could have a chance to enlarge its customer portfolio.

3G technology also enable companies to mobilize their marketing, sales and distribution process. Hence, the companies can manage almost all their operations via their 3G mobile phones. This technology provides that sales representative can send live videos to the head office about the location of the products on the shelves, retail audits, competition tracking etc. Hence managers can adjust their strategies by using this update information.

CONCLUSION

Technological products and innovations, as well as being market objects, create new horizons for marketing strategies. 3G technology is one of them. 3G is a product and it also affects the existence of new services and products directly and indirectly. We have tried to provide a general perspective for the fields of usage of 3G technology as marketing opportunity by giving examples from Turkey and the world in such an era of shift of

communication technology to 4G. Because both usage of 3G technology is so new in our country and the technologies that we exemplified are new phenomenon, we have tried to make a general framework for the future quantitative researches that may be done especially in our country.

Rapid changes in demands and expectations of the consumers have been forcing the firms to develop new personalized products and services and to plan marketing strategies in accordance with that. In this context, on the mobile marketing view, it has been noticed that the importance of classical segmentation is being declined and a shift to micro segmentation is being witnessed.

With respect of all these and reality of a shift to micro segmentation, the importance of mobile marketing and technology that empowers 3G has been worth paying attention. In this respect, we have discussed the opportunities and advantages brought by 3G technology with sample applications directed towards marketing mix in this study.

In the study, we have tried to interpret the advantages and opportunities of 3G technologies directed towards some basic marketing concepts such as segmentation, product & service, pricing, promotion and distribution. But as it is known, the marketing concepts are various; not just of basics. Limiting with the marketing opportunities and advantages within the context of basic concepts has been a big constraint for us during the study. Although there are many opportunities that can be provided through 3G, we were able to place some of them in this paper. This is another limitation of this study.

This study offers some directions for future studies. The discussed opportunities in this paper should be supported quantitatively in further researches. In this regard, measurement of effectiveness of mobile marketing opportunities which has been presented in this study could be explained. Besides, future studies determining the awareness of consumers and firms about the opportunities created by 3G could also be made.

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CONSEQUENCES OF SERVICE-WORKERS' CUSTOMER ORIENTATION AND PERCEIVED ORGANIZATIONAL SUPPORT: PROPOSING AND TESTING A MODEL IN CAFE CHAINS

Uğur Yozgat
Marmara University, Turkey

F. Oben Ürü
Haliç University, Turkey

ABSTRACT

The main object of this paper is to examine the effects of customer orientation and perceived organizational support on service workers' responses to their jobs. Thus the research was performed in Turkey's 4 biggest café chains. Data were collected from 314 wait staffs and analyzed using structural equation modeling. As the results of analyses, customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's Needs and for Personal Relationship" have direct effects on job fit and organizational fit. Also results show that job fit full mediated the relationship between customer orientation dimensions and job satisfaction dimensions. On the other hand, perceived organizational support have direct effects on customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's Needs and for Personal Relationship; Service-Oriented Organizational Citizenship Behavior's Dimensions "Service Delivery", "Loyalty)", and "Participation"; job satisfaction's dimensions; LMX perceptions and affective organizational commitment. Finally, it was seen that person-organization fit have direct effect on Service-Oriented Organizational Citizenship Behavior's Dimensions "Service Delivery", "Loyalty", and "Participation"; job satisfaction's dimensions; LMX perceptions and affective organizational commitment. This study's theoretical contribution is examination of effects of service-workers' customer orientation and perceived organizational support on their responses to their jobs in a comprehensive model; proposing new variables in the model and filling this gap in the research. Furthermore, this study's practical contribution is there is lack of research that consists of all stated variables in our model conducted in restaurant- café industry especially in café chains. And finally, the methodological contribution of this study is investigation of consequences of service-workers' customer orientation and perceived organizational support in Turkey, a developing country; it shows the external validity of these theories which were tested in Western developed countries.

Keywords: *Customer Orientation, Perceived Organizational Support, Job Fit, Organizational Fit, LMX*

INTRODUCTION

In today's competitive marketplace, firms in every industry are seeking new ways and solutions for satisfying customers. Customer satisfaction is an important determinant of customer loyalty and in turn firm's profitability and longevity. Therefore, having satisfied customers and their loyalty have become key success factors for sustainable competitive advantage. And, for satisfying customers firms must gain a broader understanding of the essentials that are required if they are to thrive and survive in a rapidly evolving and increasingly competitive global market. While the importance of satisfying customers is generally accepted, some debate exists regarding the factors leading to satisfaction. The means used to build customer satisfaction in different industries generally include a variety of characteristics. Especially, in services industry these characteristics may include food quality, the value of the dining experience, convenience, speed of service, and various other aspects which are influenced by the food service establishment's customer contact employees. From this point of view, personal interaction component of services is often a primary determinant of the customer's overall satisfaction. Furthermore Farrell & Oczkowski note that (2009:149) customers often base their impressions of the organization on the quality of service received from customer

contact employees. For instance, Pettijohn et al. (2004) state that in restaurant-café industry, customer contact employees, “the wait staff”, have an important role in determining customer satisfaction and restaurant-café profitability. Since customer satisfaction represents a legitimate goal for the service firms, it may be assumed that service-workers (e.g. in restaurant-café industry, a firm’s wait staff) those are more “customer-oriented” would be more likely to engage in activities designed to build customer satisfaction. In a service setting, customer orientation is critically important because customers have fewer tangible cues to use in evaluating the quality of the service items (Kelly, 1992). Thus, one method that can facilitate lasting differentiation may be found in service-workers (e.g. in the restaurant’s/café’s wait staff). For the organizations competing in service industries, where the service delivered by the employee is a crucial aspect of the customer experience, knowing what variables affect performance outcomes can help in the development of a competitive advantage (Farrell & Oczkowski, 2009:150). Nonetheless, the degree to which service-workers are customer-oriented may provide a distinguishable and lasting competitive advantage in services industry (Pettijohn et al., 2004:47). If we view service-workers’ customer orientation as a resource in the competitive marketplace, the question then becomes which factors may support or inhibit the customer orientation of service workers, and service-workers’ customer orientation can affect which factors. Until recently, research on service-workers’ customer orientation focused on identifying personal characteristics and work environment that related to customer orientation behavior. Although many variables influence service-workers’ customer orientation, there is reason to suspect that their beliefs about the extent to which the organization values their contribution and cares about their well-being represent a particularly powerful influence. Research shows that perceived organizational support leads employees to be more customer-oriented (Bell & Menguc, 2002; Farrell & Oczkowski, 2009). On the other hand, research shows that employees’ customer orientation positively influences several job outcomes such as job fit, organizational fit, job satisfaction and job commitment (Bettencourt, 2001; Bell & Menguc, 2002; Donovan et al. 2004; Farrell & Oczkowski, 2009). Thus, service-workers’ customer orientation can be fostered and inhibited by several factors. This research builds upon the work of Bell and Menguc (2002), Donovan et al. (2004), Farrell & Oczkowski (2009) and also answers the call from them for further research directing firms in the light of customer orientation. Furthermore, from the literature review, it is seen that most of the research has been conducted in Western countries, primarily in the United States. And we have not met a research about the consequences of service-workers’ customer orientation and perceived organizational support in Turkey. Thereby, the objective of this study is to investigate the job-related consequences of service-workers’ customer orientation and perceived organizational support through a theoretical model, focusing on the biggest café chains in Turkey. For purposes of this study, first, prior theories and research focusing on customer orientation and perceived organizational support are reviewed. Second, research hypotheses are developed and research model is presented. Third, discussion of the methods and findings are explained in the light of the research conducted in café chains. Finally, discussion about the research results is stated expressly.

THEORETICAL BACKGROUND AND HYPOTHESES

Customer Orientation

The market success of service organizations crucially depends on the interaction between customer contact employees and their customers. In the market orientation literature, recent studies have focused on the customer contact employees who are responsible for translating a market-oriented strategy into quality service (Farrell & Oczkowski, 2009:150). These basic insights generated a large body of research on the role of customer orientation (CO) of service employees or disposition to meet customer needs for achieving customer satisfaction (Wieseke, Ullrich, Christ & Van Dick, 2007:266). In this context, customer orientation has been important because service employees who exhibit a high degree of customer orientation engage in behaviors that increase the satisfaction of their customers. In addition, customer-oriented behaviors lead to the development of long-term relationships between the organization and its customers that are beneficial to both parties (Kelley, 1992: 27). Moreover, research show that organizations that focus on their customers’ needs are well positioned to achieve long-term success. On this account, meeting customers needs and exceeding their expectations are key factors as they are antecedents of customer satisfaction and loyalty which they in turn help organizations gaining and sustaining a competitive advantage. Therefore, for the organizations especially in the service industry, having these key success factors highly depends on hiring customer-oriented employees as being customer-oriented is satisfying customer needs at the level of the employee-customer interaction.

From the literature review, it is seen that many scholars define customer orientation as a behavior of employee’s tendency to meet customer needs. (Brown, Mowen, Donovan & Licata, 2002; Donovan et

al.,2004). Since behavior is based on a function of person and environment; Donovan et. al. (2004) stated that customer oriented behavior will result from the combination of person (e.g. personality, goals, functional motives) and environment (e.g. nature of the job, short-term situational effects). Consistent with this definition of customer orientation, recently research show that customer orientation is influenced by personal and organizational context, and in turn influences employee's job related outcomes (i.e work performance) (Brown, Mowen, Donnovan & Licata, 2002; Donovan et al.,2004; Pettijohn, Pettijohn & Taylor, 2004; Karatepe, Yavas, and Babakus, 2007). Customer orientation should be viewed as a trait, though customer-oriented behaviour results from the fit between personal characteristics (such as personality and goals) and the environment (McBain, 2004:29). In this respect, Donovan and colleagues (2004) developed a four-dimensional conceptualization of customer orientation (i.e., need to pamper the customer, need to read the customer's needs, need for personal relationship, and need to deliver the service required). According to their definition; employees' *need to pamper the customer* represents the degree to which service employees desire to make customers believe they are special, that is, individually important to the service provider. The service provider's *need to read the customer* reflects the employee's desire to pick up on customers' verbal and nonverbal communication. The service employee's *need for personal relationship* captures the employee's desire to know or connect with the customer on a personal level. Finally, customer-oriented employees' *need to deliver* reflects their desire to perform the service successfully (p.132). In this study, these dimensions are taken as the bases of customer orientation.

Customer Orientation, Job Satisfaction and Job Fit

In the literature, research focused on customer orientation (CO) has been shown to exert positive effects on performance outcomes (e.g. Brown et al. 2002). Theorists have noted the importance of worker satisfaction in retaining service workers, as well as the importance of worker retention to the success of the services organization (Schneider & Bowen 1993). In this context, job satisfaction refers to the employee's overall affective evaluation of the intrinsic and extrinsic facets of the job (Bettencourt, L., Gwinner, K. P. and Meuter, L., 2001:30). From the literature review, it is seen that researchers have investigated the possible relationship between job satisfaction and CO in the service context. And results showed that service workers who have higher degrees of CO are more satisfied with their jobs than employees who have less CO. (Pettijohn, Pettijohn, and Taylor 2002; Saxe and Weitz 1982; Donovan et. al., 2004). In contrast to these findings, Farrell & Oczkowski (2009) found in their study that CO had no direct effect on employee's job satisfaction. In the present study we addressed these different findings in the literature and wanted to ascertain whether job satisfaction is affected directly or indirectly by CO or not. Hence the influence of CO on job satisfaction is hypothesized:

H_{1a}: The influence of service worker customer orientation on job satisfaction will be positive.

Theorists defined person– job fit as the fit between the worker and the tasks associated with a particular job. And they stated that person– job fit pertains to the degree of match between the personality, skills, and ability of the worker and the requirements of specific jobs or job tasks and people select themselves into jobs that best match their abilities and interests (Donavan et. al., 2004:129). In this respect, research related with person– job fit focused on the role of person– job fit in the relationship between CO and job satisfaction. For instance, previous research found that customer oriented service worker was a more natural fit in a service job and, as a result, experienced greater job satisfaction. (Donavan et. al.,2004; Farrell & Oczkowski 2009). According to these findings this study proposes that service workers customer orientation affect their job satisfaction through their job fit. Therefore,

H_{1b}: The influence of service worker customer orientation on job satisfaction will be mediated by job fit.

Customer Orientation and Person-Organization Fit

Person–organization (P-O) fit is defined as the congruence between the norms and the values of organizations and the values of persons (Chatman, 1989:339). In other words, P-O fit refers to the compatibility between a person and a organization, emphasizing the extent to which a person and the organization share similar characteristics and/or meet each others needs (Kristof, 1996; Sekiguchi, 2004:179). Researchers stated that people select jobs that are compatible with their interests, values and abilities (Wilk, Desmarais & Sackett, 1995). In addition, researchers have found that people are more likely to choose organizations with values that match their own values (Cable & Judge, 1996; Judge & Bretz, 1992; Judge & Cable, 1997; Farrell & Oczkowski, 2009). And they are selected by organizations with whom their values match (Cable & Judge, 1997; Kristoff-Brown, 2000). According to these findings, this study proposes

that highly customer oriented employees will have a closer fit with their values and organizational values. Hence the following hypothesis is advanced:

H₂: The higher level of service worker customer orientation, the higher level of person-organization fit.

Customer Orientation and Organizational Commitment

Organizational commitment can be defined as the relative strength of an individual's identification with and involvement in a particular organization (Steers, 1977:46; Mowday, Steers, Porter, 1979:226). This definition reflects especially the affective component of organizational commitment also established by Allen & Meyer (1990:1). Recently, researchers have found positive relationships between customer orientation levels and organizational commitment (Babakus, Cravens, Johnston & Moncrief, 1996; Babin & Boles, 1996; Pettijohn, Pettijohn & Taylor, 2004; Donovan & Hocutt, 2001; Donovan et al. 2004; Farrell & Oczkowski, 2009). These findings indicate that employees, who are highly customer oriented, have greater levels of organizational commitment. Based upon the above arguments, we expect that customer-oriented employee is more likely to be more committed to the organization. Therefore;

H₃: The influence of service worker customer orientation on organizational commitment will be positive.

Customer Orientation and Service-Oriented Organizational Citizenship Behaviors

In recent years, researchers have recognized the importance of distinguishing between in role (e.g. sales volume, commissions) and extra-role (e.g. organizational citizenship behaviors, pro-social behaviors) aspects of performance. The types of extra-role performance that have received the most attention in management and marketing literature are organizational citizenship behaviors (Vilela et al., 2008:1008). Organizational citizenship behavior (OCB) can be described as a discretionary or 'extra-role' behavior that goes beyond the stated requirements of a job description (McBain, 2004:25). That is to say, OCB is a type of discretionary behavior beneficial to an organization but falling outside of an employee's formal role requirements (Organ, 1988, MacKenzie, Podsakoff & Ahearne, 1998). In service settings OCBs are considered extra-role providing a relevant framework for conceptualizing the link between service worker behavior and a level of service quality that exceeds customer expectations (Bell & Menguc, 2002). However, few studies focus on impact of the OCB of service workers who have special requirements related to dealing with customers and representing the organization to outsiders (Wang, 2009). Recently, scholars focused on determining the basis of service-oriented organizational citizenship behaviors in service settings and exposed that service-oriented organizational citizenship behavior (SOCB) is similar to generic OCB except that it focuses on dealing with customers and representing the organization to outsiders (Bettencourt, Gwinner & Meuter, 2001; Wang, 2009). In this context, SOCB that contact employees may exhibit include *loyalty* OCB, which reflects allegiance to the organization by promoting its interests and image to customers; *participation* OCB, which improves the quality of service delivery; and *service delivery* OCB, which involves exhibiting conscientious behavior involving service delivery to customers (Wang, 2009:651).

From the literature review, it is seen that the relationship between customer orientation and different types of OCB is explained by socialization theory suggesting that employees who perform one type of helping behavior (customer-oriented behavior), are more likely to perform other types of helping behaviors (e.g. organizational citizenship), due to the personal values acquired through the socialization process (Farrell & Oczkowski, 2009:152). Thereby researchers found that service worker customer orientation has positive effect on different types of OCB (Bell & Menguc, 2002; Donovan et al., 2004; Farrell & Oczkowski, 2009). Hence the positive effect of service worker customer orientation on service-oriented organizational citizenship behavior is hypothesized:

H₄: The influence of service worker customer orientation on service-oriented organizational citizenship behavior will be positive.

Perceived Organizational Support

In the literature, organizational support theory applies perceived organizational support (POS) as a central construct to understand the employee-organization relationship. POS refers to employee global beliefs that the firm cares about them personally –their well being- and values their contributions to the organization (Eisenberger, Huntington & Sowa, 1986; Eisenberger, Fasola & Davis-LaMastro, 1990). The caring, approval, and respect connoted by POS, in turn, fulfill socio-emotional needs, causing employees to incorporate organizational membership and role status into their social identity (Wang, 2009:650). According

to Rhoades and Eisenberger (2002), there are three primary ways in which employees perceive favorable treatment from their organizations: (1) Through supervisor support; (2) through rewards and favorable job conditions; and (3) through fair policies and practices. In this context, POS strengthens employees' beliefs that the organization recognizes and rewards increased performance or expected behaviors (Rhoades & Eisenberger, 2002). Thence, it is expected that POS can affect positively several job outcomes which in turn affect overall organization performance.

Perceived Organizational Support and Customer Orientation

In conceptualizing the relationship between POS and service worker customer orientation, we build upon the arguments by Farrell & Oczkowski (2009) who state that in a service setting, primary focus is on meeting the needs of the customer and the culture of the organization is concerned with supporting customer-oriented activities. In turn, argue Farrell & Oczkowski (2009), if employees believe that their organization values their contribution to service quality, they are more likely to engage in customer-oriented behavior. Hence, the following hypothesis is advanced:

H₅: The higher level of perceived organizational support, the higher level of service worker customer orientation.

Perceived Organizational Support and Service-Oriented Organizational Citizenship Behaviors

In the literature, tenets of social exchange theory indicate that employees perceiving the firm is committed to them will feel obligated to reciprocate the firm's supportive orientation with voluntary contributions that benefit the firm (Bettencourt, Gwinner & Meuter, 2001:30). Bell and Menguc (2002) state that perceived organizational support is related to employee OCBs because it may affect employees' perceptions that they are valued by their organizations. They also added that if an organization supports its employees will lead to reciprocal contributions from employees in the form of extra-role behaviors (p.134-135). In addition, Wang (2009) stated that service orientation is a paramount concern in service settings, and valued service behavior would be to perform the job to serve customers delightedly. As to Wang (2009), it is likely that high-quality employment relationship will prompt service workers to expand their SOCB beyond what is formally expected by their organizations. Prior studies have found that POS leads to various types of OCBs (Eisenberger, Fasola & Davis-LaMastro, 1990; Moorman, Blakely & Niehoff, 1998, Bell & Menguc, 2002; Bettencourt, Gwinner & Meuter, 2001; Farrell & Oczkowski, 2009; Wang, 2009). Considering prior research on other forms of OCBs and service workers behaviors, we expect that POS to be positively related to service worker SOCB (loyalty, service delivery, and participation). Therefore,

H₆: The higher level of perceived organizational support, the higher level of service-oriented organizational citizenship behavior.

Perceived Organizational Support, Job Satisfaction, Organizational Commitment and Leader-Member Exchange Perceptions

From the literature review, it is seen that POS leads several job outcomes such as job satisfaction, organizational commitment and leader-member exchange (LMX) perceptions. As stated before, organizational commitment especially its affective commitment dimension relates to how an employee feels towards his or her organization. In the literature, POS is stated as a major causal factor in increasing the affective organizational commitment by fulfilling such socio-emotional needs as affiliation and emotional support (Khurram, 2009). Research focusing on POS show that when POS is high, a social exchange develops where the employee may feel compelled to reciprocate the high level of perceived affective commitment he or she receives from the organization (Wayne, Shore & Liden, 1997; Wang, 2009).

On the other hand, LMX is described as the strength of the exchange relationship between an employee and his/her supervisor (Scandura & Graen, 1984:428). On this basis, supervisors are likely to have high expectations of employees whom the organization strongly supports (Khurram, 2009). Thus employees having high POS would be viewed as valuable exchange partners with whom supervisors would be inclined to develop strong LMX relationships (Khurram, 2009).

In this context, prior studies have found positive relationship between POS and job satisfaction (Rhoades & Eisenberger, 2002; Farrell & Oczkowski, 2009); LMX (Wayne et al., 2002, Khurram, 2009) and organizational commitment (Muse & Stamper, 2007; Farrell & Oczkowski, 2009, Khurram, 2009). Hence the following hypotheses are advanced:

H₇: The higher level of perceived organizational support, the higher level of job satisfaction.

H₈: The higher level of perceived organizational support, the higher level of LMX perception.

H₉: The higher level of perceived organizational support, the higher level of organizational commitment.

Person-Organization Fit, Service-Oriented Organizational Citizenship Behaviors, Job Satisfaction, Leader-Member Exchange Perceptions and Organizational Commitment

In the literature, the term person-organization (P-O) fit is described as the connection between individual and organizational goals; individual preferences or needs and organizational systems or structures; and individual personality and organizational climate (Kristoff, 1996; Vilela et al., 2008). Research on P-O fit is generally related with several job outcomes. In this context, O'Reilly and Chatman (1986), Donovan et al. (2004) and Farrell and Oczkowski (2009) have found positive relationship between P-O fit and different types of OCBs. Specially, they found that congruence between individual and organizational values predicted a higher likelihood of OCB (i.e. helping others).

P-O fit theory suggests that shared values between individuals and organizations lead to job satisfaction for the employee (Chatman, 1991). Prior research supports the positive effect of P-O fit on job satisfaction (Kristoff, 1996; Vilela et al., 2008; Farrell and Oczkowski, 2009). According to these findings, perceived value congruence is an antecedent of job satisfaction.

As regards the relationship between P-O fit and organizational commitment, it was revealed that individuals who recognize a strong link between their personal values and those of their organization, have higher levels of organizational commitment (Vilela et al., 2008: 1008). Indeed, recent studies show that P-O fit is a determinant of organizational commitment (Chatman, 1991; O'Reilly, Chatman & Caldwell, 1991; Kristof-Brown et al., 2005; Vilela et al., 2008; Farrell and Oczkowski, 2009)

From the literature review, it is seen that very few studies have proposed a theoretical model or conducted empirical investigations of relationship between P-O fit and LMX as experienced by employees in an organization (e.g. Erdogan & Bauer, 2004; Kristof-Brown et al., 2005). Specially, in this study we expect that P-O fit will positively affect LMX perception.

Based upon the above arguments, the following hypotheses are advanced:

H_{10a}: The influence of person-organization fit on service-oriented organizational citizenship behavior will be positive.

H_{10b}: The influence of person-organization fit on job satisfaction will be positive.

H_{10c}: The influence of person-organization fit on LMX perception will be positive.

H_{10d}: The influence of person-organization fit on organizational commitment will be positive.

The hypothesized model showing details of variables and the relationships is depicted in Figure 1.

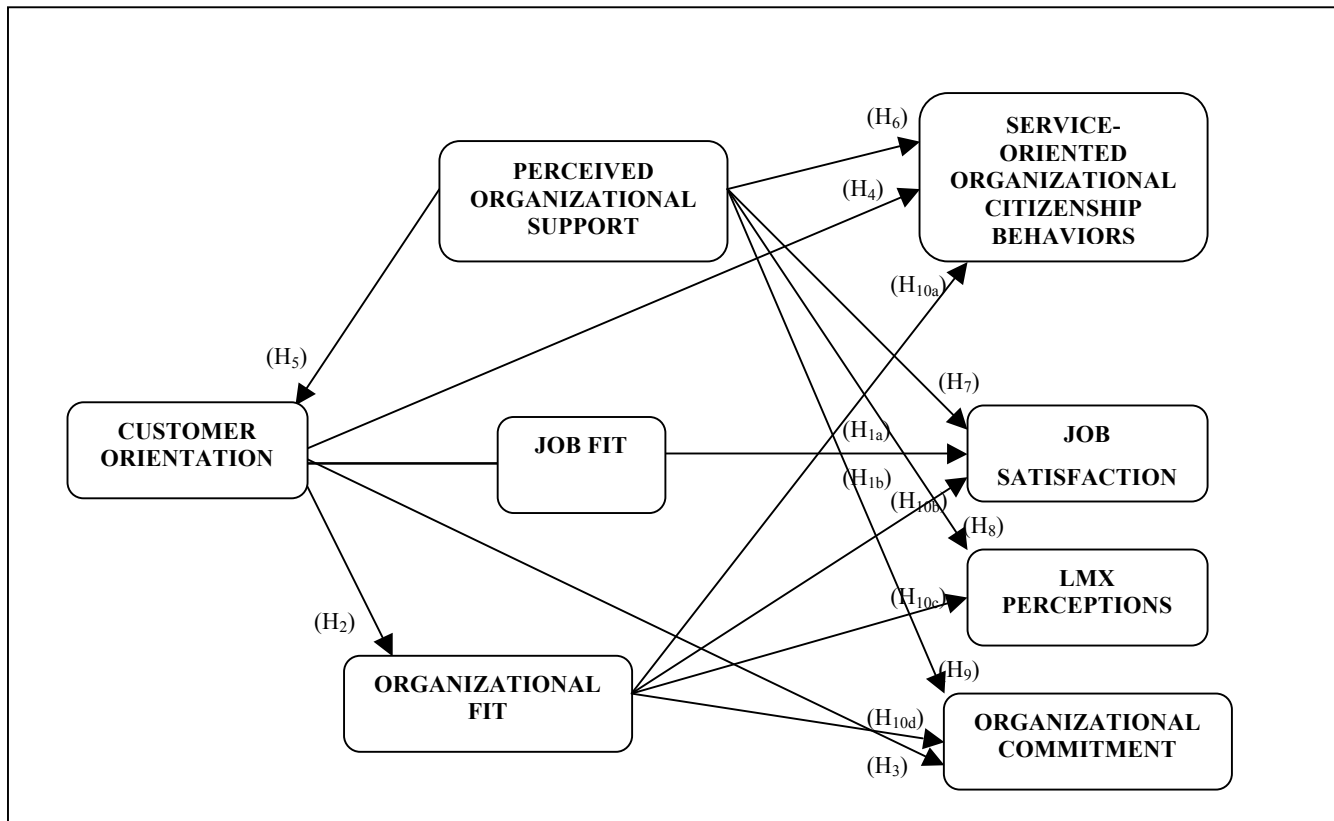


Figure 1: Hypothesized Model

METHODOLOGY

The Main Objective and Scope of the Research

The main objective of this research is to examine the effects of customer orientation and perceived organizational support on service workers' responses to their jobs. This research comprises 4 biggest café chains in Turkey. In this context, cafés' wait staff's opinions and perceptions are taken as base. The café chains -Café and Restaurant Industry- was appropriate for testing our hypotheses for various reasons. First, the delivery of service is a fundamental aspect of the customer experience. Second, this industry itself invests considerable resources in recruiting and training staff. Furthermore, we chose Turkey's 4 biggest café chains these have a reputation for good customer service.

Data Collection Method, Procedures and Type of Research

This study was performed by explanatory and causal research models. According to these, the effects of wait staff's customer orientation and perceived organizational support on several job outcomes - job fit, organizational fit, service-oriented organizational citizenship behaviors, intrinsic job satisfaction, LMX perceptions and affective organizational commitment- were explained and identified. *The population of this study* was composed of 44 café chains in [Turkey](#) listed in Economist Magazine 2009. *Research sample* consisted of 4 biggest café chains and their 276 divisions in Turkey. Data were collected through **structured questionnaires**. In this research 4 biggest café chains and their 276 divisions in Turkey are reached via e-mail and telephone. The questionnaires are given all of the specified café chains' divisions through face-to-face interviews or via postal 10 each. But some of the participants excused for not answering the questionnaires by reason of their workload or length of the questions in the questionnaire. Hence, 276 of 62 café chains' divisions returned; thereby **62 café chains' divisions of 314 wait staffs'** answers included in this research.

Details of dispersion of the questionnaires to the café chains are exhibited in Table 1.

Table 1. Dispersion of the Questionnaires to the Café Chains

CAFÉ CHAINS	Population (Total Number of Divisions)	Sample Size (Number of the Divisions Answered the Questionnaire*)	Sampling Ratio (%)	Number of the Wait Staffs Answered the Questionnaire**
Starbucks Coffee	139	27	19,42	142
Gloria Jean's Coffees	59	12	20,33	50
Kahve Dünyası	49	15	30,61	70
Café Crown	29	8	27,58	52
TOTAL	276	62	22,46	314

*Minimum 3, maximum 10 questionnaires returned from each café chains' division answering questionnaire.

**Number of the wait staffs answered the questionnaire consists of wait staffs answering questions in the questionnaire completely and consistently (questionnaires with missing and inconsistent statements were excluded).

Measures

The questionnaire prepared for wait staff, consists of 78 questions in 9 parts (one part for 8 demographic questions). Thereby in this research 8 different scales were used. In the first part of the questionnaire, for measuring *customer orientation* Donavan et al.'s (2004) 13-item scale having 4 dimensions (*need to pamper dimension, need to read customer's needs dimension, need to deliver dimension and need for personal relationship dimension*) was used. In the second part, *perceived organizational support* was measured by 11-item scale adapted from Eisenberger et al. (1986). In the third part, for measuring *job fit* Donavan et al.'s (2004) 3-item scale was used. In the fourth part, *organizational fit* was measured by Cable and Judge's (1996) 3-item scale. In the fifth part, for measuring *service-oriented organizational citizenship behaviors* Bettencourt et al.'s (2001) 16-item scale having 3 dimensions (*loyalty, service delivery and participation*) was used. In the sixth part, for measuring job satisfaction Weiss et al.'s (1967) scale known as the Minnesota Satisfaction Questionnaire's short form capturing 12 *intrinsic job satisfaction* items was used. In this study, Minnesota Satisfaction Questionnaire translated into Turkish by Oran (1989) was used. In the seventh part, *LMX perceptions* were measured by 7-item scale adapted from Scandura and Graen (1984). In this study, LMX scale translated into Turkish by Özutku, Ağca and Cevrioğlu (2008) was used. In the eighth part, for measuring organizational commitment Mowday et al.'s (1979) 5-item scale capturing *affective organizational commitment* was used. And finally in the last part, demographic questions for measuring descriptives and other control variables such as educational level, and job tenure are asked. All the variables were measured by participant responses to questions on a five-point Likert-type scale ranging from "strongly disagree" to "strongly agree" for the variables customer orientation, perceived organizational support, job fit, service-oriented organizational citizenship behaviors and affective organizational commitment; ranging from "not at all" to "completely" for the variables organizational fit and LMX perceptions; ranging from "very dissatisfied" to "very satisfied" for the variable job satisfaction.

Analysis

In the direction of purpose of the study, following statistical analysis were performed using SPSS 17.0 Statistical Package and LISREL 8.54. First, for measuring participants' demographic characteristics frequency analyses were done. Second, reliability analyses using principal components method and varimax rotation were performed towards the determination of internal consistencies of the scales. Also in this step, content validity and then construct validity were performed. For testing construct validity, Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) were applied to determine whether the adapted forms of scales had valid factor structures. In this study EFA using principal components method and varimax rotation was performed to examine the factor structures of the scales according to the data obtained from the Turkish participants and CFA was applied to confirm the original scales structures in Turkish culture. Third, to determine means, standard deviations and to understand correlations among all factors came out in the factor analysis, descriptive statistics were performed. And last, structural equation modeling (SEM) with latent constructs was used to test hypothesized model. The advantage of SEM is that it offers a simultaneous test of an entire system of variables in a hypothesized model and thus enables assessment of the extent to which the model is consistent with the data and the entire set of relationships (Hair et al., 2006). In this study, Anderson and Gerbing's (1988) comprehensive, two-step analytical strategy to test hypothesized model depicted in Figure 1 was performed. According to this strategy, the measurement model was first

confirmed using CFA and then SEM based on the measurement model to estimate the fit of the hypothesized model to the data was performed. To gauge the model fit, chi-square (X^2) values were reported as the index of absolute fit, which assesses extend to which the covariances estimated in the model match the covariances in the measured variables (Kline, 1998). For models with good fit, chi-square (X^2) normalized by degrees of freedom (X^2/df) should not exceed five. Among the absolute fit measures used to evaluate the model are; X^2 statistics divided by its degrees of freedom, goodness-of-fit index (GFI; Jöreskog & Sörbom, 1993), Adjusted Goodness of Fit Index (AGFI; Hair *et al.*, 2006), Comparative Fit Index (CFI; Bentler, 1990), Normed Fit Index (NFI; Browne & Cudeck, 1992), Relative Fit Index (RFI; Browne & Cudeck, 1992), Root Mean Square Error of Approximation (RMSEA; Steiger, 1990) Standardized Root Mean Square Residual (SRMR, Jöreskog & Sörbom, 1993). Fit Indexes such as GFI, AGFI, CFI, NFI and RFI were evaluated with the traditional cutoff value of .90. In addition, good fit is achieved with RMSEA and SRMR values of .05 or less; acceptable fit, with values between .05 and .10; poor fit, with values larger than .10 (Steiger, 1990; Jöreskog & Sörbom, 1993; Browne & Cudeck, 1992).

FINDINGS

Frequency Analysis

Demographic questions were analyzed according to frequency. The sample of this study was 314 wait staffs working in 4 biggest café chains. Results of frequency analyses showed that 57,3% of employees were male ($f=180$), 42,7% of employees were female ($f=134$); 11,1% of whole was 25 years old ($f=35$); 56,1% of whole was single ($f=176$); 68,7 % of whole graduated from high school or lower ($f=216$); 15,9% of whole has 3 years of work experience ($f=50$); 19,7% of whole has 4 years of job tenure (in the current firm) ($f=62$); 21% of whole has been working with their managers (leaders) for 4 years ($f=66$).

Factor and Reliability Analyses

Content validity of the survey instrument was established through the adoption of validated instruments by other researchers in the literature (Straub, 1989). During the translation process, by local meeting with professionals content validity was established. And Turkish final versions of the scales were used to measure each construct.

Customer Orientation Scale (CO). Internal consistency reliability to test unidimensionality was assessed by Cronbach's alpha. As a result of Cronbach's reliability analysis performed for CO, Cronbach's alpha coefficient for each dimension of the scale was above the acceptable threshold (.70) suggested by Nunnally & Bernstein (1994) and the scale had a strong reliability (Cronbach's $\alpha = .937$). As a result of Exploratory Factor Analysis (EFA) (principle component analysis with varimax rotation) performed for CO, 2 factors which Eigenvalues ≥ 1 obtained consisting of 13 items (KMO=0,900, $X^2_{\text{Bartlett test}}(78)=3206,272$ $p=0,000$). Total variance explained was 67,262%. Scale factors were found unlike the original, so we named these factors in turn as; “*Need to Pamper and Deliver (Cronbach $\alpha = .929$, % of Variance=38,296)*”, “*Need to Read Customer's Needs and for Personal Relationship (Cronbach $\alpha = .868$, % of Variance=28,966)*”. The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=209.47, N=314, $df=62$, $p<.000$, $X^2/df=3.37$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.96, AGFI=0.95, CFI=0.97, NFI=0.97, RFI=0.94, RMSEA=0.014, SRMR=0.036. According to these values, it can be said that the structural model of CO which consists of two factors was well fit to the Turkish culture.

Perceived Organizational Support Scale (POS). As a result of Cronbach's reliability analysis performed for POS, 2 items decreased the reliabilities were eliminated and the scale had a strong reliability as Cronbach's $\alpha = .930$. Therefore EFA repeated. After EFA was performed, 1 factor which Eigenvalue ≥ 1 obtained consisting of 9 items (KMO=0,929, $X^2_{\text{Bartlett test}}(36)=1891,259$ $p=0,000$). Total variance explained was 64,471%. The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=59.74, N=314, $df=22$, $p<.000$, $X^2/df=2.71$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.96, AGFI=0.92, CFI=0.99, NFI=0.98, RFI=0.97, RMSEA=0.074, SRMR=0.026. According to these values, it can be said that the structural model of POS which consists of one factor was well fit to the Turkish culture.

Job Fit Scale (JF). As a result of Cronbach's reliability analysis performed for JF, the scale had a reliability as Cronbach's $\alpha = .891$. As a result of EFA performed for JF, 1 factor which Eigenvalue ≥ 1 obtained consisting of 3 items (KMO=0,739, $X^2_{\text{Bartlett test}}(3)=551,342$ $p=0,000$). Total variance explained was 82,160%. The results of CFA indicated that the model was saturated and the fit was perfect. According to these results, it can be said that the structural model of JF which consists of one factor was perfectly fit to the Turkish culture.

Organizational Fit Scale (OF). As a result of Cronbach's reliability analysis performed for OF, the scale had a strong reliability (Cronbach's $\alpha = .912$). As a result of EFA performed for OF, 1 factor which Eigenvalue ≥ 1 obtained consisting of 3 items (KMO=0,746, $X^2_{\text{Bartlett test}}(3)=660,491$, $p=0,000$). Total variance explained was 85,175%. The results of CFA indicated that the model was saturated and the fit was perfect. According to these results, it can be said that the structural model of OF which consists of one factor was perfectly fit to the Turkish culture.

Service-Oriented Organizational Citizenship Behaviors Scale (SOCB). As a result of Cronbach's reliability analysis performed for SOCB, the scale had a strong reliability (Cronbach's $\alpha = .959$). As a result of EFA performed for SOCB, 3 factors which Eigenvalues ≥ 1 obtained consisting of 16 items (KMO=0,934, $X^2_{\text{Bartlett test}}(120)=4786,597$ $p=0,000$). Total variance explained was 76,995%. Scale factors were found as in the original, so we named these factors like the original in turn; "Service Delivery (Cronbach $\alpha = .928$, % of Variance=28,048)", "Loyalty (Cronbach $\alpha = .934$, % of Variance=24,871)", "Participation (Cronbach $\alpha = .918$, % of Variance=24,076)". The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=281.26, N=314, df=99, $p < .000$, $X^2/\text{df}=2.84$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.98, AGFI=0.94, CFI=0.97, NFI=0.97, RFI=0.96, RMSEA=0.012, SRMR=0.039. According to these values, it can be said that the structural model of SOCB which consists of three factors was well fit to the Turkish culture.

Intrinsic Job Satisfaction Scale (IJS). As a result of Cronbach's reliability analysis performed for IJS, the scale had a strong reliability (Cronbach's $\alpha = .913$). As a result of EFA performed for IJS, 2 factors which Eigenvalues ≥ 1 obtained consisting of 12 items (KMO=0,892, $X^2_{\text{Bartlett test}}(66)=2232,061$ $p=0,000$). Total variance explained was 63,314%. Scale factors were found unlike the original, so we named these factors in turn as; "Intrinsic Job Satisfaction 1 (Cronbach $\alpha = .888$, % of Variance=39,146)", "Intrinsic Job Satisfaction 2 (Cronbach $\alpha = .824$, % of Variance=24,168)". The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=209.67, N=314, df=56, $p < .000$, $X^2/\text{df}=3.74$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.95, AGFI=0.92, CFI=0.95, NFI=0.96, RFI=0.91, RMSEA=0.015, SRMR=0.048. According to these values, it can be said that the structural model of IJS which consists of two factors was well fit to the Turkish culture.

Leader-Member Exchange Scale (LMX). As a result of Cronbach's reliability analysis performed for LMX perceptions, the scale had a strong reliability (Cronbach's $\alpha = .924$). As a result of EFA performed for LMX perceptions, 1 factor which Eigenvalue ≥ 1 obtained consisting of 7 items (KMO=0,900, $X^2_{\text{Bartlett test}}(21)=1578,974$ $p=0,000$). Total variance explained was 69,117%. The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=42.49, N=314, df=12, $p < .000$, $X^2/\text{df}=3.54$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.94, AGFI=0.91, CFI=0.98, NFI=0.97, RFI=0.95, RMSEA=0.013, SRMR=0.037. According to these values, it can be said that the structural model of LMX which consists of one factor was well fit to the Turkish culture.

Affective Organizational Commitment Scale (AOC). As a result of Cronbach's reliability analysis performed for AOC, the scale had a strong reliability (Cronbach's $\alpha = .884$). As a result of EFA performed for AOC, 1 factor which Eigenvalue ≥ 1 obtained consisting of 5 items (KMO=0,859, $X^2_{\text{Bartlett test}}(10)=824,662$ $p=0,000$). Total variance explained was 68,513%. The results of CFA indicated that the model was well fit and Chi-Square value (X^2)=10.60, N=314, df=4, $p < .000$, $X^2/\text{df}=2.65$) which was calculated for the adaptation of the model was found to be significant. The goodness of fit index values of model were GFI=0.99, AGFI=0.95, CFI=0.99, NFI=0.99, RFI=0.98, RMSEA=0.073, SRMR=0.019. According to these values, it can be said that the structural model of LMX which consists of one factor was well fit to the Turkish culture.

According to the **Tukey's Test of Additivity**, "Customer Orientation", "Service-Oriented Organizational Citizenship Behaviors", "Intrinsic Job Satisfaction" variables were taken with their dimensions came out from factor analysis in the following analysis. All of the factor scores in the research were calculated via averaging.

Descriptive Statistics

Table 2. Means, Standard Deviations, and Correlations^a

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Need to Pamper & Deliver	4,05	0,68	1													
2. Need to Read Cus. Need. & for Per. Re.	3,81	0,77	.698**	1												
3. Perceived Organizational Support	3,85	0,63	.601**	.633**	1											
4. Job Fit	3,94	0,76	.657**	.607**	.587**	1										
5. Organizational Fit	3,74	0,71	.575**	.524**	.568**	.505**	1									
6. Service Delivery	4,14	0,68	.696**	.550**	.510**	.547**	.610**	1								
7. Loyalty	4,07	0,80	.661**	.587**	.557**	.532**	.598**	.692**	1							
8. Participation	3,96	0,80	.602**	.628**	.597**	.595**	.623**	.697**	.688**	1						
9. Intrinsic Job Satisfaction 1	3,75	0,66	.516**	.549**	.575**	.485**	.553**	.546**	.585**	.610**	1					
10. Intrinsic Job Satisfaction 2	3,83	0,58	.626**	.516**	.510**	.536**	.577**	.619**	.685**	.576**	.690**	1				
11. Leader-Member Exchange	3,78	0,69	.535**	.542**	.608**	.458**	.592**	.580**	.591**	.634**	.598**	.609**	1			
12. Affective Organizational Commitment	3,93	0,73	.647**	.673**	.740**	.587**	.558**	.518**	.601**	.569**	.510**	.550**	.579**	1		
13. Educational Level ^b	11,79	1,66	.137	.040	.088	.093	.112	.214	.134	.095*	.090	.131	.105	.092	1	
14. Job Tenure ^b	3,17	1,75	.172	.232	.228	.212	.128	.158	.228	.209	.152	.125	.256	.234	.129	1

^a N=314

^b Job Tenure is measured in years, Education is measured in years completed in the schools

* p<0.05 **p<0.01

Table 2 displays means, standard deviations, and correlations among all the variables. As it is seen, all variables except job tenure and educational level have correlations. Therefore job tenure and educational level were not taken as control variables in the analysis.

Hypothesis Testing

Prior to testing the measurement and the structural models, items were averaged into dimensions for customer orientation, service-oriented organizational citizenship behaviors, and intrinsic job satisfaction. And their different dimensions were distinct, thereby these different dimensions were treated as separate variables in our SEM analyses. For all other variables in our model, items were averaged into single indicators.

Measurement Model Analyses

The baseline measurement model consisting of twelve constructs was initially analyzed and refined before the estimation of the structural model. Standard factor loadings (t-values) of the measurement model were brought in line with the modification indices resulting from the first order factors analysis and values of all items were bigger than acceptable t-value (1.96 for p<0.05). The measurement model results indicated a good fit to the data: (X^2)=1936.18, N=314, df=1078, p<.000, X^2 /df=1.79; GFI=0.94, AGFI=0.92, CFI=0.95, NFI=0.94, RFI=0.95, RMSEA=0.042, SRMR=0.044. The goodness of fit index values of model provided evidence that further examination of the structural model was justified.

Structural Model Analyses

The Maximum Likelihood (ML) SEM was employed. Structural modeling results suggested that the hypothesized model fit to the data well: (X^2)=2136.47, N=314, df=1182, p<.000, X^2 /df=1.80; GFI=0.95, AGFI=0.96, CFI=0.96, NFI=0.95, RFI=0.94, RMSEA=0.041, SRMR=0.043. Table 3 summarizes all the model fit indexes. Figure 2 presents the overall structural model with path coefficients. The value of the model is bigger than 1.96.

Table 3. Summary of Model Fit Indexes^a

Model Test	X^2	df	GFI	AGFI	CFI	NFI	RFI	RMSEA	SRMR
1. Independence model	13,687,252	2278							
2. Measurement model	1936.18	1078	.94	.92	.95	.94	.95	.042	.044
3. Hypothesized model	2136.47	1182	.95	.96	.96	.95	.94	.041	.043

^a X^2 values for the measurement model and structural models are significant at $p \leq .001$.

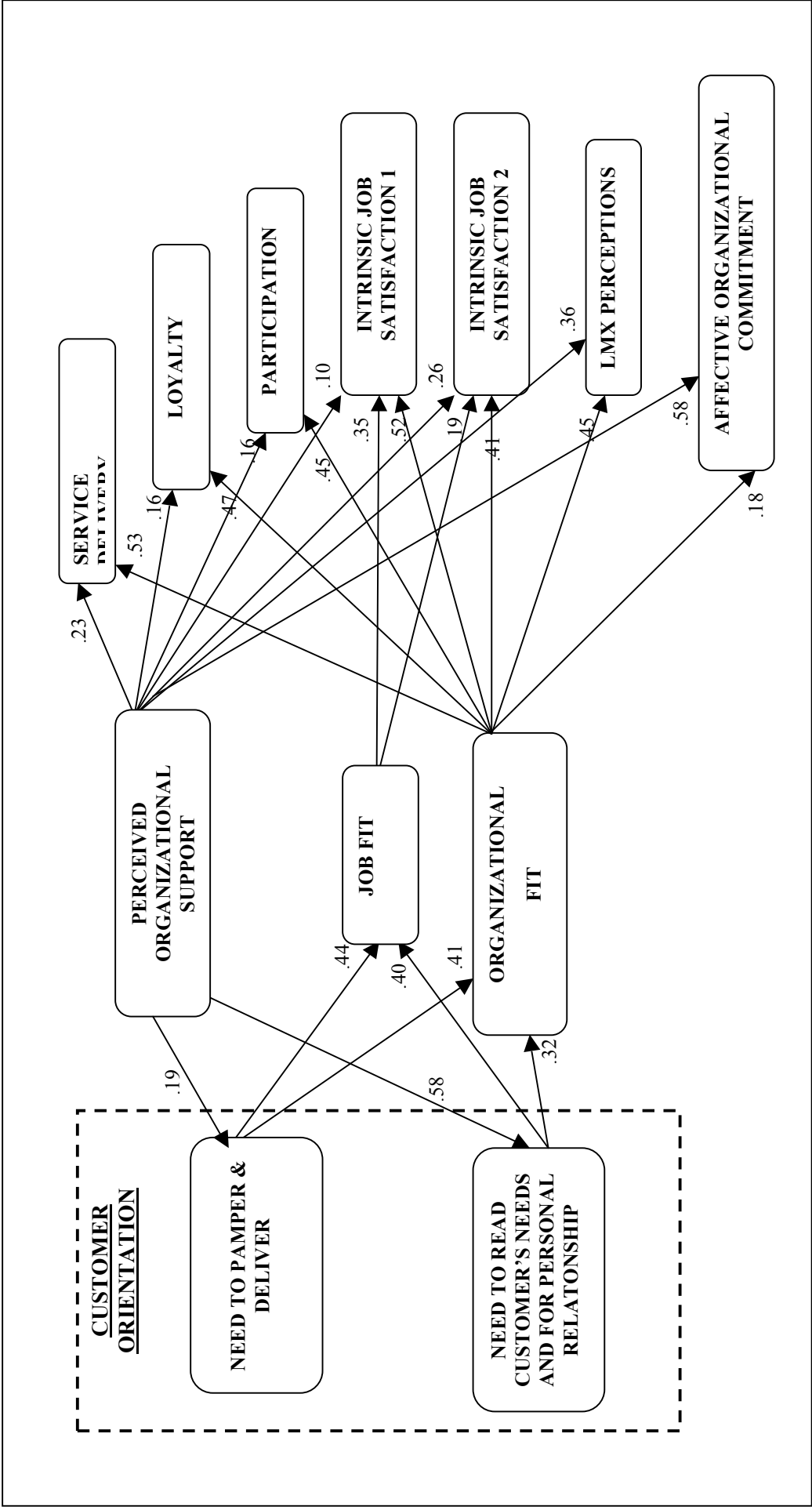


Figure 2: Structural Model Results^a
^a N=314. All paths in structural model analysis are significant at $p < .05$

According to the results of Structural Model, the following observations are made about the hypotheses. Hypothesis 1a states that the influence of service worker customer orientation on job satisfaction will be positive. The findings **not supported H_{1a}** as the direct effects of customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's needs and for Relationship" on job satisfaction's dimensions "Intrinsic Motivation 1", "Intrinsic Motivation 2" are not statistically significant (standardized path coefficient (β) = .037, t-value = 0.56; β = .048, t-value = 0.69; β = .033, t-value = 0.50; β = .059, t-value = 0.74). **Hypothesis 1b**, which states that the influence of service worker customer orientation on job satisfaction will be mediated by job fit, **is supported** as the effects of job fit on job satisfaction's dimensions "Intrinsic Motivation 1", "Intrinsic Motivation 2" are statistically significant (β = .35, t-value = 5.40; β = .19, t-value = 2.77). Hypothesis 2 says that the higher level of service worker customer orientation, the higher level of person-organization fit. The findings **supported H₂** as the effects of customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's needs and for Relationship" on person-organization fit are statistically significant (β = .41, t-value = 4.52; β = .32, t-value = 3.40). **Hypothesis 3**, which states that the influence of service worker customer orientation on organizational commitment will be positive, **is not supported** as the direct effects of customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's needs and for Relationship" on organizational commitment are not statistically significant (β = .031, t-value = 0.49; β = .045, t-value = 0.62). Hypothesis 4 states that the influence of service worker customer orientation on service-oriented organizational citizenship behavior's dimensions will be positive. The findings **not supported H₄** as the direct effects of customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's needs and for Relationship" on service-oriented organizational citizenship behavior's dimensions "Service Delivery", "Loyalty", "Participation" are not statistically significant (β = .067, t-value = 0.98; β = .055, t-value = 0.70; β = .064, t-value = 0.92; β = .054, t-value = 0.69; β = .040, t-value = 0.53; β = .066, t-value = 0.94). **Hypothesis 5**, which states that the higher level of perceived organizational support, the higher level of service worker customer orientation, **is supported** as the direct effects of perceived organizational support on customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's needs and for Relationship" are statistically significant (β = .19, t-value = 2.24; β = .58, t-value = 6.14). Hypothesis 6 states that the higher level of perceived organizational support, the higher level of service-oriented organizational citizenship behavior. The findings **supported H₆** as the direct effects of perceived organizational support on service-oriented organizational citizenship behavior dimension's "Service Delivery", "Loyalty", "Participation" are statistically significant (β = .23, t-value = 3.09; β = .16, t-value = 2.91; β = .16, t-value = 3.03). **Hypothesis 7**, which states that the higher level of perceived organizational support, the higher level of job satisfaction **is supported** as the direct effects of perceived organizational support on job satisfaction's dimensions "Intrinsic Motivation 1", "Intrinsic Motivation 2" are statistically significant (β = .10, t-value = 2.14; β = .26, t-value = 4.08). Hypothesis 8 states that the higher level of perceived organizational support, the higher level of LMX perception. The findings **supported H₈** as the direct effect of perceived organizational support on LMX perception is statistically significant (β = .36, t-value = 5.65). **Hypothesis 9**, which states that the higher level of perceived organizational support, the higher level of organizational commitment, **is supported** as the direct effect of perceived organizational support on organizational commitment is statistically significant (β = .58, t-value = 8.68). Hypothesis 10a states that influence of person-organization fit on service-oriented organizational citizenship behavior will be positive. The findings **supported H_{10a}** as the direct effects of person-organization fit on service-oriented organizational citizenship behavior's dimensions "Service Delivery", "Loyalty", "Participation" are statistically significant (β = .53, t-value = 8.73; β = .47, t-value = 8.25; β = .45, t-value = 7.70). **Hypothesis 10b**, which states that influence of person-organization fit on job satisfaction will be positive, **is supported** as the direct effects of person-organization fit on job satisfaction's dimensions "Intrinsic Motivation 1", "Intrinsic Motivation 2" are statistically significant (β = .52, t-value = 8.16; β = .41, t-value = 6.16). Hypothesis 10c states that influence of person-organization fit on LMX perception will be positive. The findings **supported H_{10c}** as the direct effect of person-organization fit on LMX perception is statistically significant (β = .45, t-value = 6.97). Finally, **Hypothesis 10d**, which states that influence of person-organization fit on organizational commitment will be positive, **is supported** as the direct effect of person-organization fit on organizational commitment is statistically significant (β = .18, t-value = 3.48).

RESULTS AND DISCUSSION

In this study, the effects of customer orientation and perceived organizational support on service workers' responses to their jobs were investigated with a comprehensive model in Turkey's 4 biggest café chains. As the results of analyses, customer orientation's dimensions "Need to Pamper and Deliver" and "Need to Read Customer's Needs and for Personal Relationship" have direct effects on job fit (44%; 40%) and organizational fit (41%; 32%); and these findings are consistent with previous findings of Donovan et al. (2004) and Farrell and Oczkowski (2009). In other words, the higher service workers desire to make customers believe they are special,

pick up on customers' verbal and nonverbal communication, connect with the customer on a personal level and perform the service successfully, they are better fit their job and their organization. On the other hand, contrary to our hypothesis, no evidence was found to support the customer orientation-job satisfaction relationship, indeed results show that job fit full mediated the relationship between customer orientation dimensions and job satisfaction dimensions. And this finding is consistent with Donovan et al.'s (2004) 'Study 3' as well as Farrell and Oczkowski's (2009) study. Our findings suggest that recruiting customer-oriented staff and employing them in a service setting, does not necessarily guarantee such staff will be satisfied with their jobs. In this respect, customer-oriented staff can have job satisfaction as long as they perceive that they are good fit with their job.

Results also show that customer orientation has no direct effects on service-oriented organizational citizenship behaviors and organizational commitment and contradict the findings by Farrell and Oczkowski (2009). These findings reveal that having service-oriented organizational citizenship behavior and commitment to the organization in service settings, firstly depends on having a good fit to the organization as well as perceiving support from organization according to the overall our model results.

On the other hand, results show that perceived organizational support have direct effects on customer orientation's dimensions "Need to Pamper and Deliver (19%)" and "Need to Read Customer's Needs and for Personal Relationship (58%); Service-Oriented Organizational Citizenship Behavior's Dimensions "Service Delivery (23%)", "Loyalty (16%)", and "Participation (16%)"; job satisfaction's dimensions (10%; 26%); and affective organizational commitment (58%). And these findings are consistent with Farrell and Oczkowski's (2009) study. According to this study's another valuable finding, perceived organizational support have direct effect on LMX perceptions (36%). In other words, staffs that perceive organizational support in service settings, have high quality relations with their leaders (managers). In this context, perceived organizational support can be considered as basis of high quality relationships between managers and staffs. Results also show that that person-organization fit have direct effect on Service-Oriented Organizational Citizenship Behavior's Dimensions "Service Delivery (53%)", "Loyalty (47%)", and "Participation (45%)"; job satisfaction's dimensions (52%; 41%); LMX perceptions (45%) and affective organizational commitment (18%). These findings which are consistent with Farrell and Oczkowski's (2009) study show that the importance of selecting employees who are a good a good fit with the organization.

Consequently, our study's overall results show that organizations in service settings can hire customer oriented staff but it would not be enough for their commitment to their organization, job satisfaction and extra-role behaviors (organizational citizenship behaviors). Indeed, staffs should be well fit to their organization and should perceive support from their organizations for these job outcomes. At this point, managers should consider these factors affecting their staffs' customer oriented behaviors if they want to differentiate from other organizations by their customer oriented services and in turn to gain competitive advantage in service industry.

This study's theoretical contribution is examination of effects of service-workers' customer orientation and perceived organizational support on their responses to their jobs in a comprehensive model; proposing new variables in the model and filling this gap in the research. Furthermore, this study's practical contribution is there is lack of research that consists of all stated variables in our model conducted in restaurant- café industry especially in café chains. And finally, the methodological contribution of this study is investigation of consequences of service-workers' customer orientation and perceived organizational support in Turkey, a developing country; it shows the external validity of these theories which were tested in Western developed countries.

The results of this study provide important insights about the factors related to the effects of customer orientation and perceived organizational support on service workers' responses to their jobs. Future studies should focus on exploring this topic in different cultures and across different types of organizations. Furthermore, such studies should seek to employ quantitative as well as qualitative methods to determine the effects of customer orientation and perceived organizational support on several job outcomes.

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MARKET ORIENTATION AND BUSINESS PERFORMANCE OF BH ENTERPRISES

Vesna Babic-Hodovic
Eldin Mehic
Emir Agic
Amela Jašic

School of Economics and Business Sarajevo
University of Sarajevo

ABSTRACT

Market orientation is one such metric that has emerged as a significant predictor of performance and is presumed to contribute to long-term success (Deshpande & Farlez, 1999): Market orientation is heavily influenced by the marketing concept (Drucker, 1954; McCarthy, 1960; McKitterick, 1957), and is the cornerstone of the marketing management and marketing strategy paradigms (Hunt, 2002).

Our analysis serves to bridge this gap in the literature by investigating studies of the relationship between management role and organizational behaviour and market orientation in Bosnia and Herzegovina, as the one of transitional countries.

Based on two different dimension of market orientation measuring: (1) research of prerequisites and factors for market orientation implementation and (2) research of consequences or results of its implementation, we decided to include both of them in the B&H economy research, but first of them in this paper. That means we have wanted to investigate: (a) factors influencing successful implementation of market orientation of companies on B&H market; (b) relations between the level of market orientation implementation and business performances; and (c) to stress possible suggestion how to build better business performances through market orientation and its implementation.

On the sample of 104 BH companies we had tested hypothesis that top management emphasis on a market orientation will positively influence market orientation of the company, and all three elements of market orientation, as well as top management risk aversion is negatively correlated with market orientation, again all three elements of market orientation. Second group of factors we had tested were interdepartmental dimensions, conflict and connections. Finally study show influence of reward system orientation and market orientation dimensions.

Paper is structured in 5 main parts. After introduction we present theoretical framework of market orientation, and specifically relations between market orientation and business performance. Next part explains hypothesis tested in the survey, methodology of research, data analysis and conclusion, in the form of manager recommendations and limitation of research.

Keywords: *market orientation, business performance, organizational behaviour,*

INTRODUCTION

Market orientation is one such metric that has emerged as a significant predictor of performance and is presumed to contribute to long-term success (Deshpande & Farlez, 1999): Market orientation is heavily influenced by the marketing concept (Drucker, 1954; McCarthy, 1960; McKitterick, 1957), and is the cornerstone of the marketing management and marketing strategy paradigms (Hunt, 2002).

Over time, scholars have acknowledged that market orientation research has significantly influenced the development of marketing knowledge (Biggadike, 1981; Day, 1999; Kohli & Jaworski, 1990). Moreover,

international studies in marketing most often compare developed, rather than developing countries. Marketing scholars recognize this limitation and called for the extension of research to an international context (Deshpande, Farley, and Webster, 1997; Homburg & Pflesser, 2000; Kohli, Jaworski, & Kumar, 1993). This analysis serves to bridge this gap in the literature by investigating studies of the relationship between market orientation and business performance in transition countries, i.e. Bosnia and Herzegovina, as the one of the transition countries.

TABLE 1: CONTEXT RELATED DIFFERENCES IN THE DIRECT EFFECT OF MARKET ORIENTATION ON BUSINESS PERFORMANCE

Context of studies	No. of studies	Total number of effects	No. of positive	significant effects	Number significant	of non-effects	Number significant effects	of negativ
UK-based	17	34	23	67,6%	10	29,4%	1	2,9%
UK-based	6	14	4	28,6%	10	71,4%	0	0.0%
European-based *	4	10	10	100.0%	0	0.0%	0	0.0%
Middle ** East & Asia	8	17	14	82.4%	2	11.8%	1	5.9%
More than one co***	4	15	10	66.7%	5	33.3%	0	0.0%
Total	39	90	61	67.%	27	30.0%	2	2.2%

*excluded UK

** Middle East and Asian based studies

*** More than one country

Namely, one of the very important influences of FDI was the strong competition on the market and strengthening level of competitiveness of the companies and countries getting foreign capital. Based on all those theoretical and empirical results of FDI influences, we have tested connection between the level of FDI capital in companies and their business performances.

The notion that market orientation has a positive impact on business performance is well documented in scholarly research (e.g., Baker & Sinkula, 1999; Harris, 2001; Matsuno & Mentzer, 2000). This study seeks to go beyond the assessment of the existence and the direction of this relationship by investigating two important research questions: (1) What is the strength of the relationship between market orientation and business performance? (2) What is the impact of foreign ownership on the level of market orientation of the company? (3) How the level of managerial development could influence on the acceptance and implementation of market orientation?

MARKET ORIENTATION

Over the last decade there has been a growing interest in the construct of market orientation (Webster, 1994; Day, 1992) and its usefulness in increasing companies' economic performance (Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Lambin, 1996; Deng and Dart 1994).

Hamburg and Pflesser (2000) distinguish two complementary perspectives on market orientation: behavioural and cultural. First, Narver and Slater (1990) defined market orientation in terms of culture and related it to the fundamental characteristics of the organization (e.g., customer orientation, competitor orientation, and inter-functional coordination), although they operationalized market orientation in terms of employee behaviour. The cultural stream describes market orientation as a culture that commits the organisation to the continuous creation of superior value for customers (Deshpande, Farley and Webster, 1993; Narver and Slater 1990). This culture creates an environment that maximises opportunities for learning about markets, for sharing information among functions in the organisation that allows for common interpretations, and for taking co-ordinated actions (Slater and Narver, 1994). Narver and Slater (1998, p. 235) emphasised the importance of the cultural perspective in comparison to the behavioural approach: "If a market orientation were simply a set of activities completely disassociated from the underlying belief system of an organisation, then whatever an organisation's culture, a

market orientation could easily be implemented by the organisation any time. But such is not what one observes.”

Second, Kohli and Jaworski’s (1990) approach defined market orientation in terms of organizational behaviors (e.g., generation of information, dissemination of information, and responsiveness to information). The behavioural stream of research describes market orientation in terms of specific behaviours related to the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of this intelligence across departments and organisation-wide responsiveness to it (Kohli and Jaworski, 1990). Key features in this view are a focus on markets, an emphasis on a specific form of inter-functional coordination and a focus on activities related to information processing.

Mavondo and Farrell (2000) noted that the cultural and behavioural approaches share the notion that the consumer is central in the manifestation of market orientation and stakeholders shape the needs and expectations of consumers. In addition, Deshpande’ and Farley (1998, p. 226) offered a conceptualization that includes both perspectives and emphasized a behavioural approach that defined market orientation as “the set of cross-functional processes and activities directed at creating superior value for customers through continuous needs assessments.”

MARKET ORIENTATION AND BUSINESS PERFORMANCE

The notion that market orientation affects business performance is a matter of extensive research (e.g., Kohli & Jaworski, 1990; Matsuno & Mentzer, 2000; Narver & Slater, 1990). In line with this reasoning, researchers have pursued an understanding of the link between market orientation and business performance by investigating: (1) a direct relationship (e.g., Pelham 1999; Ruekert 1992); (2) a moderated link (e.g., Greenley 1995b; Pelham 1997), and; (3) a mediated relationship (e.g., Baker and Sinkula 1999b; Han, Kim and Srivastava 1998). Studies investigating a direct relationship reveal 67.8% positive effects of market orientation on measures of business performance, 30.0% non-significant effects, and 2.2% negative effects (Langerak, 2002). Ruekert (1992) and Slater and Narver (1994) find positive effects, Han, Kim and Srivastava (1998) and Greenley (1995b) reports no effects, while Grewal and Tansuhaj (2001) encounter negative effects.

Although some studies suggest a negative or non-significant relationship, most findings indicate a positive relationship between market orientation and business performance (e.g., Deshpande ’ & Farley, 1998; Matsuno & Mentzer, 2000; Slater & Narver, 2000). Furthermore, Doyle and Wong (1998) found market orientation to be the second most important driver, differential advantage being the first, of business performance. No matter all those results, this is an important consideration, because devoting resources to develop a market orientation potentially may be wasteful if the orientation does not lead to higher performance in certain business environments, such as those with low competitive intensity.

While internal organizational as well as external factors (e.g., competitive intensity) can be argued to be antecedents of market orientation (Lusch and Laczniak, 1987), the presented study focuses on internal factors. This perspective embodies a more applied orientation, because managers have more control over internal antecedents compared to external ones.

Based on the discussed literature, three sets of antecedents pertaining to top management, interdepartmental factors and reward systems are hypothesized to be related to market orientation, and market orientation is hypothesized to be related to business performance.

Hypotheses on Market Orientation

Several researchers discuss performance outcomes of organizational culture with a theoretical orientation (Barney 1986; Fiol 1991; O’Reilly 1989). Barney (1986) argues that only a valuable, rare, and imperfectly imitable culture of a firm can be a source of sustained competitive advantage. Kotter and Heskett (1992) find empirical support for the performance impact of organizational culture. Their results indicate that firms with a strong culture that emphasizes customer orientation, employee orientation, stockholder orientation, and leadership have higher long-term performance. With respect to the specific domain of market orientation, several empirical studies reveal positive and significant correlation links between market orientation and different performance measures (e.g., Jaworski and Kohli 1993; Narver and Slater 1990; Slater and Narver 1994). In studying performance outcomes of market-oriented organizational cultures, we draw a distinction between market performance and financial performance. Market performance is defined as the effectiveness of an organization's marketing activities and is measured by items pertaining to achieving customer satisfaction,

providing value to customers, retaining customers, and attaining the desired market share. Financial performance is operationalized as return on sales in our study. Basically, we argue that a market oriented organizational culture has an indirect effect on financial performance through market performance. A market-oriented organization provides a unifying focus of individual efforts in the delivery of value to the customers while also providing a comparative impetus with competitors' activities (Kohli and Jaworski 1990). Therefore, a market-oriented organization is likely to achieve higher customer satisfaction, keep existing customers loyal, attract new customers, and subsequently attain the desired growth and market share. Similar to Narver and Slater (1990), we predict that market-oriented organizational culture will have a positive impact on market performance. More specifically, we state that among the four components of a market oriented organizational culture, only behaviours have a direct performance impact. Values, norms, and artefacts are not assumed to have a direct impact on market performance. In summary, this leads us to the following: The presence of market-oriented behaviours in an organization has a positive impact on market performance.

We also assume that performance in the market is a necessary antecedent of financial performance. The literature on performance implications of customer satisfaction and loyalty (Anderson and Sullivan 1993; Fornell 1992; Rust and Zahorik 1993) provides evidence that these components of market performance are positively related to financial performance. Furthermore, Reichheld (1996) argues that loyal customers can increase a firm's profitability through the absence of acquisition costs, lower operating costs, referrals, and higher price tolerance. In addition, PIMS studies identify product/service quality and market share as the most important factors that influence the percentage of return on sales (Buzzell and Gale 1987, p. 45): Market performance has a positive effect on financial performance.

Based on two different dimension of market orientation measuring: (a) research of prerequisites and factors for market orientation implementation and (b) research of consequences or results of its implementation, we decided to include both of them in the B&H economy research. That means we have wanted: (1) To investigate factors influencing to successful implementation of market orientation of companies on B&H market; (2) To investigate relations between the level of market orientation implementation and business performances; and (3) To stress possible suggestion how to build better business performances through market orientation and its implementation.

Previous studies have found top management had key role in the process of forming organizational values and orientations (Felton 1959, Hambrick and Maosn 1984), but at the same time, they are the biggest barrier for successful implementation of companies' market orientation, especially in transitional countries. Unless an organization gets clear signals from top managers about the importance of being responsive to customer needs, the organization is not likely to be market-oriented (Levitt, 1969; p. 244; Webster, 1988, p. 37). If top management do not want accept idea that marketing orientation would positively influence business performance and help companies to survive there is nobody to encourage employees to track changing markets, share market intelligence with others in the organization, and be responsive to market needs (Jaworski and Kohli, 1993).

On the other side, responsiveness to changing market needs often calls for the introduction of new products and services to match the evolving customer needs and expectations. But new products, services and programs often run a high risk of failure and tend to be more salient than established products. Kohli and Jaworski (1990) argue that if top management demonstrates a willingness to take risks and to accept occasional failures as being natural, subordinates are more likely to focus on generating or disseminating market intelligence or responding to changes in customer needs and vice versa.

H1: The top management emphasis on a market orientation will positively influence market orientation of the company:

- H1a: market intelligence generation;
- H1b: intelligence dissemination; and
- H1c: responsiveness of the organization.

H2: Top management risk aversion is negatively correlated with market orientation:

- H2a: market intelligence generation;
- H2b: intelligence dissemination; and
- H2c: responsiveness of the organization.

The second group of factors we had investigated included interdepartmental relations and their influence market orientation. Interdepartmental conflicts refer to the tension among departments arising from the incompatibility

of actual or desired responses (Raven and Kruglanski, p. 70) and could be inhibitor of a market orientation (Levitt, 1969; Lusch, Udell and Laczniak, 1976). Those conflicts is likely to inhibit communication across departments (Ruekert and Walker, 1987) and as the result lowering market intelligence dissemination and response by the departments to market needs, and finally market orientation. On the other side interdepartmental connection as the formal or informal direct contact between employees across departments facilitate interaction and exchange of information, and actual utilization of the information (Cronbach and Associates, 1981; Deshpande and Zaltman, 1982; Patton, 1978). The more individuals across departments are directly connected the more they are likely to exchange market intelligence and respond to it (Kohli and Jaworski 1990). Since more and more information, specifically in service industries, company collecte based on marketing information system, actually its marketing intelligence subsystem, we hypothesized that interdepartmental relations will influence all three dimension of market orientation. Our hypothesis are opposite previous study, excluded marketing intelligence generation (Jaworski and Kohli, 1993).

H3: Interdepartmental conflict will negatively influence on market orientation:

- H3a: market intelligence generation;
- H3b: intelligence dissemination; and
- H3c: responsiveness of the organization.

H4: Interdepartmental connection will positively influence on market orientation:

- H4a: market intelligence generation;
- H4b: intelligence dissemination; and
- H4c: responsiveness of the organization.

The last factor we had researched relates to the measurement and reward system that is in place within an organization, since measurement/reward systems are instrumental in shaping the behaviours of employees (Anderson and Chambers, 1985; Jaworski, 1988; Lawler and Rhode, 1976; Hopwood, 1974). In the present context, Webster (1988, p. 38) argues that "... the key to developing a market-driven, customer-oriented business lies in how managers are evaluated and rewarded." He stressed tendency between managers evaluated on the bases of short-term profitability and results, to focus on these particular criteria instead of market factors. Those attitudes are strongly correlated with the top management emphasis on the specific goals and measures. Looking for visible results in short-period, they will ask subordinates and employees to do the same thing.

H5: Rewarding and evaluating system for managers reliance on market based factors will positively influence market orientation:

- H5a: market intelligence generation;
- H5b: intelligence dissemination; and
- H5c: responsiveness of the organization.

RESEARCH METHODOLOGY AND STATISTICAL MODELS

We developed a questionnaire on the basis of the literature review (Jaworski and Kohli, 1993), the content analysis, and the field interviews and conducted a pre-test with seven managers and two academics, which resulted in small changes in the wording of items and the instructions to answer the questionnaire. We will study elements and dimensions of market orientation at the corporate level. We mailed the questionnaire to a sample of all managers in companies registered at the dataset of Ministry of foreign affairs from different industries in Bosnia and Herzegovina. We ensured the respondents' competence before the mailing by conducting a telephone identification of key informants on the basis of addresses obtained from a commercial provider. The targeted key informants included general managers, marketing managers, and managers from other functional areas. Firms that will not respond after four weeks will mail a follow-up letter and another questionnaire.

For statistical analysis we will use structural equation modelling (SEM). SEM is a family of statistical models that seek to explain the relationships among multiple variables. In doing so, it examines the structure of interrelationships expressed in a series of equations, similar to a series of multiple regression equations. These equations depict all of the relationships among constructs (the dependent and independent variables) involved in the analysis. Constructs are unobservable or latent factors represented by multiple variables (much like variables representing a factor in factor analysis).

SEM is the only multivariate technique that allows the simultaneous estimation of multiple equations. These equations represent the way construct relate to measured indicator items as well as the way constructs are related to one another. Thus, when SEM techniques are used to test a structural theory, it is the equivalent of performing

factor analysis and regression analysis in one step. SEM has become an extremely popular technique in the social sciences based on these key advantages. SEM is known by many names, and sometimes is even just referred to by the name of specialized software package used (e.g. a LISREL or AMOS model).

DATA ANALYSES AND HYPOTHESES TEST RESULTS

The first five hypotheses (H1 through H5 and sub-hypotheses) related to the antecedents of a market orientation. These were tested by estimating the following regression equations, where Y1 denotes overall market orientation, Y2 through Y4 denote market intelligence generation, market intelligence dissemination, and responsiveness, respectively, and X1 through X5 correspond to (1) top management emphasis on market orientation, (2) top management risk aversion, (3) interdepartmental conflict, (4) interdepartmental connection and (5) reward system orientation.

In the first phase of analysis we had found high level of multicollinearity between two independent variables: top management emphasis on market orientation and top management risk aversion. It influenced results of all other variables, and we excluded top management risk aversion from the pool of variables, since we expected that management show above average level of risk aversion as the consequence of recession and economic problems, strongly influence environment companies operate. Results of analyses are presented at the Exhibit 1.

TABLE 1: ANTECEDENTS OF MARKET ORIENTATION

Independent variables	Dependent variables			
	Market orientation	Intelligence Generation	Intelligence Dissemination	Responsiveness
Top Management Emphasis	.14** (.058)	-.07(ns) (.089)	.27** (.090)	.24** (.085)
Interdepartmental Conflict	-.27*** (.061)	-.22* (.094)	-.34** (.095)	-.23** (.090)
Interdepartmental Connections	(ns) (.066)	-.25* (.100)	(ns) (.102)	.12* (.096)
Reward System Orientation	.27*** (.061)	.44*** (.093)	.10* (.094)	.27** (.089)
R ²	0.3539	0.2366	0.2151	0.2963
Adj R ²	0.3277	0.2058	0.1834	0.2678
Number of observation	104	104	104	104

*** p<.001

** p<.01

* p<.05

On the market orientation we had found significantly strong negative influence of interdepartmental conflict (b = -.27, p<.001) and the same level of positive influence of reward system orientation (b = .27, p<.001) and lower level of positive influence of top management emphasis (b = .14, p<.01), but interdepartmental connections not significant for the level of company market orientation. Looking at the standardized coefficients, Beta coefficient showed the greater relative effect of reward system orientation and interdepartmental conflict, but positive and negative, comparing to the two other dimensions. Lack of interdepartmental connections influence on market orientation is unexpected results, since dimension of market orientation; (intelligence generation, dissemination and responsiveness) we expect would be positively influenced by cooperation between employees working at deferent departments.

Looking at the intelligence generation, reward system orientation show very strong positive influence ($b = .44, p < .001$). At the same time we found negative influence of interdepartmental conflict ($b = -.22, p < .05$) and interdepartmental connections ($b = -.25, p < .05$). There were surprising results, since cooperation between departments expected being promoters of market orientation, specifically through intelligence dissemination, but we had found interdepartmental cooperation not significant for intelligence dissemination. The only possible explanation could be the misperception of management about the importance those two dimensions. Looking at their own role in companies and reward and motivation system they follow on, they ignore and neglected roles and influence department in companies have in the strengthening market orientation. It could be consequence of the previous economic system and the portion of public companies included in the sample.

Top management emphasis has positive influence on intelligence dissemination at the level of $p < .01$ ($b = .27$), interdepartmental conflict too ($\beta = -.34, p < .01$), and reward system orientation lower level of influence ($b = .10, p < .05$). As we already said unexpected results we have got for the interdepartmental connection variable. It appears non significant at all.

All independent variables had significant influence at regression, but at different levels. Top management emphasis, interdepartmental conflict and reward system orientation influence stronger ($b = .24; b = -.23; b = .27; p < .01$ respectively) than interdepartmental connection ($b = .12, p < .05$). Obviously respondents do not consider interdepartmental connection as the important elements for market orientation of the companies; it was not significant for market orientation and intelligence dissemination, which is illogical; but at the same time it has negative influence on intelligence generation and positive influence at the level of $p < .05$ for responsiveness. The only possible explanation could be perception of marketing department and marketing activities as the most important dimensions for market orientation, from the respondents' point of view. It is typical for the companies operate in transitional countries starting with the implementation of marketing concept after process of privatization and transformation.

Therefore, it appears important that top managers continually emphasize the need for ongoing tracking and responding to market developments to employees. These findings support the earlier expectation that role of top managers is significant in the building market orientation, as well as intelligence dissemination and responsiveness. Surprisingly, top managers emphasize was not significance for intelligence generation.

Interdepartmental conflict, as expected appears to inhibit, intelligence generation, dissemination and responsiveness (table 1). Results concerned intelligence generation are different comparing previous studies (Jaworski and Kohly 1993, p.63) where they suppose there were no influence of the conflicts to the intelligence generation. We had found negative influence of interdepartmental conflict even to the intelligence generation ($b = -.22, p < .05$). This supports the expectations that individuals in organizations in which tensions prevail across departments are less likely to be willing to share market information or to work and cooperate with other departments to satisfy customer needs and expectations.

At the same time interdepartmental connection indicated negative influence on intelligence generation which was unexpected results. These results call for additional research to examine the linkage between interdepartmental connection and market orientation, as well as intelligence dissemination, and causes of negative influence of interdepartmental connection and intelligence generation.

The most influential independent variable, according results, is reward system orientation. It has very strong positive influence on the market orientation and intelligence generation ($\beta = .27; b = .44, p < .001$), than responsiveness ($\beta = .27, p < .01$) and finally intelligence dissemination ($\beta = .10, p < .05$). Using those results we can conclude managers are most interested to empower employees to focus on customer market and competition if they itself motivated and reward based on market focus performance and organizations that reward employees on the basis of factors such as customer satisfaction, building customer relationship, and so on tend to be more market-oriented.

Comparisons of the standardized regression coefficients suggest that the design of reward system has the strongest impact on market orientation among the set included in the study. Adequate reward systems appear to facilitate two components of market orientation – ($\beta = .44, p < .001$), responsiveness ($\beta = .27, p < .01$) and market orientation itself ($\beta = .38, p < .001$).

CONCLUSION

Managerial Implications

Besides being theoretically insightful, our study has several important managerial implications. First, it provides managers with a detailed understanding of some of the processes that drive behaviour in organizations. Within our model, market-oriented behaviours are only influenced through positive or negative artefacts of market orientation. Much managerial activity to guide behaviour in organizations is based on the establishment of norms. Our research tells managers that the establishment of norms will not produce the desired behavioural outcomes unless the norms are supported by appropriate artefacts. Also, written value statements can be effective only if supported by adequate artefacts. Second, managers need to recognize the importance of consciously managing artefacts within their organizations. Third, our findings regarding performance implications of market-oriented organizational culture are managerially relevant show that a market-oriented culture appears especially important in, among other things, a turbulent market environment and transitional periods. Also, our findings show that a market-oriented culture influences financial performance indirectly through market performance. Thus, customer satisfaction ratings and customer loyalty figures are appropriate outcome measures for companies that are trying to enhance their market orientation. Fourth, our scale can be used by managers for measuring the degree of market orientation of their firms' culture. As this instrument makes a distinction among different layers of culture, it is adequate for identifying possible inconsistencies among the different layers of culture. Finally, our research provides managers guidance on the wording of a company philosophy. We have identified a set of values that fosters the development of corresponding norms and thus influences market-oriented behaviours. Managers should take these values into consideration when formulating a company philosophy or writing a mission statement.

Limitations and Further Research

One limitation of our study is the national character of our sample. Similar to other studies of market orientation, our study needs to be extended to an international context (e.g., Deshpande, Farley, and Webster 1997; Seines, Jaworski, and Kohli 1996). Furthermore, these type of studies need to consider international aspects of measurement equivalence. This is particularly necessary for the measurement of values (Hofstede 1980). Further research should investigate the concept of market-oriented organizational culture using data from multiple informants, as has been done by Kohli, Jaworski, and Kumar (1993) in the behavioural research stream on market orientation. The developed scale for market-oriented organizational culture involves several items. From a managerial perspective, it might be useful to develop more parsimonious measures of market-oriented organizational culture while still making a distinction among different layers. The exploratory nature of our measurement of artefacts for market orientation exhibits lower reliabilities than other measures used in this study. Therefore, further research should be conducted to develop better measures of artefacts. If we consider the strong effects of artefacts on market-oriented behaviors, this direction for further research is even more essential. On a more general level, we believe that additional research on market-oriented organizational culture should link this construct to other organizational constructs in marketing research that are related to the intra organizational role of the marketing function. As an example, Homburg, Workman, and Krohmer (1999) analyzed the marketing function's influence within the firm. Influence or power within organizations is one of the most important drivers of organizational behavior. Further research could, for example, analyze whether a powerful marketing department supports (or prohibits) the development of a market-oriented organizational culture.

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THE EFFECT OF ADVERTISEMENT ON IMPROVING BRAND PERCEPTION: AN EVALUATION IN AUTOMOBILE SECTOR

T. Sabri ERDİL, Öner BAŞARIR
Marmara University, Turkey

ABSTRACT

The factors caused by the management of consumer perception are revealed in this paper. Process of brand perception management and consumer perception is studied. Surely these perceptions are directly related to messages from the advertisements. We evaluated these theoretical findings, with a focus group investigation for ads, from automobile sector. We found out that some of the brands are successful at orienting the perceptions towards advertisement messages, and some of them aren't.

Keywords: Advertisement; brands; brand perception; perception

INTRODUCTION

The American Marketing Association defines a brand as 'a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers' (Pennington and Ball, 2007). The brand is often mentioned as a firm's most valuable asset (Wallström, Karlsson and Sangari, 2008). That's why, the brand acts as a kind of flag, waving to consumers, creating awareness of the product and differentiating it from other competitors (Ellwood, 2002). In fact, the brand has no objective existence at all: it is simply a collection of perceptions held in the mind of the consumer (Thjomoe, 2008). Branding is particularly important as "people choose the brands in the same way they choose friends" (Vrontis, 2007). Customers estimate which offer will deliver the most perceived value and act on it (Kotler and Keller, 2006).

The purpose of the present study is to investigate the effect of TV advertisements as a promotional works on brand perception process in the matter of creating and improving consumer's brand perception that is required or targeted and in the case of factors that effect brand building. In the end of this study, the effect of advertisement on brand perception as one of the most important communication instrument in marketing was dealt with the case of a specific model.

The article proceeds in the following manner. Primarily, it was briefly reviewed the literature presentation. In the literature section, it was observed that evolution of brand perception and the effect of advertisement on perception determiners and it has developed one hypothesis. Afterwards, this effectiveness was analyzed with the fieldwork in an academic aspect. And then, it was presented that the methods for using researching process and the acquired findings at the end of the study. Finally, all acquired findings were examined with an academic aspect.

MESSAGE DESIGNING IN ADVERTISEMENT

The Planning of Message Content

Successful brands are synonymous with consistent, high quality items and offer consumers relevant added values reinforced through advertising (Chernatony, 1989). Advertising represents an important means by which organizations communicate with their customers, both current and potential. The specific objectives of an advertising campaign may adopt many forms, e.g. to: a) create awareness of a new product or brand, b) inform customers of the features and benefits of the product or brand, c) create the desired perceptions of the product or brand, d) create a preference for the product or brand, e) persuade customers to purchase the product or brand (Bendixen, 1993). Advertising has the power to create a psychological relationship between a brand and its users. The best selling brands in a product category are also typically the leading advertisers: Tide, Crest, and Marlboro, to name just a few (Duncan, 2002).

Advertising creativity, the force that drives message strategy development and execution, is the one aspect of advertising that has defied mathematical treatment. In theory, creating effective advertising would seem a simple business - getting the right message to the right audience at the right time. In practice, however, the business of advertising is not so simple; other advertisers are trying to reach the same audience. To overcome competing voices as well as the audience's general defensive tendencies, the key to effective advertising - getting people's attention and then motivating them to process the sales message - is the development and execution of the right message strategy (Dunn, Barban, Krugman and Reid, 1990).

Advertisements should be interesting in nature, convey the information, take the attention of customers and create action on the part of consumers in addition to basic features of conveying differentiated and unique messages to consumers in a safe and complete way (Aktuğlu, 2004).

Obviously, there is an ongoing fierce competition in the advertising sector which necessitates becoming the most successful one among hundreds of ads that is almost always a hard process. Today, the marketing approach has become focusing on differentiation to overcome this problem insuch we whitness on tv ads with good design to be able to influence the tv viewers within a very short time of a few seconds. That is why message design has become so important in advertisements.

Determining images for ads

Brands can be differentiated based on three brand concepts: functional, symbolic or experiential (Ramaseshan and Tsao, 2007). Advertising intended to convey different brand concepts needs to emphasize different quality or nonquality aspects. With functional brand concepts, advertising should emphasize intrinsic attributes; with symbolic brand concepts, extrinsic attributes; and with experiential brand concepts, nonquality variables (Aaker and Biel, 1993).

The impact of the message depends not only on what is said, but also on how it is said. The creative people must find the best style, tone, words and format for executing the message. Any message can be presented in different execution styles, such as the following: slice of life, lifestyle, fantasy, mood or image, musical, personality sembol, technical expertise, scientific evidence and testimonial evidence or endorsement. Finally, format elements make a difference in an ad's impact as well as in its cost. A small change in ad design can make a big difference in its effect. The illustration is the first thing the reader notices - it must be strong enough to draw attention. Next, the headline must effectively entice the right people to read the copy. Finally, the copy - the main block of text in the ad - must be simple but strong and convincing (Kotler, Wong, Saunders and Armstrong, 2005).

'What customers associate with a brand is the result of what they have felt, learnt, seen and heard about the brand (Koll and Wallpach, 2009).' Images used in an ad are at least as important as the messages it conveys to the coonsumers. Images definetly support the messages. For instance, designers decide when to use dark colors and when to use shiny colors depending on the purpose of the ad. Choosing the right images and using them in place will increase the value and effectiveness of the ad which in turn increase brand perception intended.

DETERMINING PERCEPTION FOR TARGET MARKET

Perceptual Factors

A variety of factors affecting perception has been defined in previous literature. Among them are the previous experience, mental and psychological situation, culture, beliefs, values, environmental factors and so on. For instance, quality is a perceptual factor. Consumers might prefer the brand name with high quality perception. Similarly, price is a perceptual factor too. Human being has many other perceptual criteria that he/she will place his/her decisions.

There has been perceptual maps in marketing in order to determine perceptual factors. In these maps product positioning, customer positioning and product attributes are explained. Perceptual mapping has been used as a tool for determining marketing mix for targeted consumers. (Erdil and Uzun, 2009)

Individual with perception, chooses what he/she is interested in from the environment. At this choice stage, he/she may skip some environmental details whereas he/or she may be attracted by some other details. This situation is a kind of proof that perception process differ from person to person. The fact that exposes this difference is people to have various friends, needs, motives, values and experiences.

Consumer perceptions have great importance on creating differences between brand names with the aid of adverts. Advertisement will be influential on the sale of a specific brand, as long as they have the potential to indicate the brand better and more different in consumer perceptions. (Erdil and Uzun, 2009)

Choosing the Factors

Perceptual organization allows consumers to decide between competing brands on the basis of their similarities within mental categories conceived earlier. Consumers group a large number of competing brands into a few categories, since this reduces the complexity of interpretation (Chernatony and McDonald, 2003). And perceptions about a brand as reflected by the brand associations held in consumer memory (Ballantyne, Warren and Nobbs, 2006). These associations refer to any aspect that link the brand with the consumer's memory. Relationships are then created between consumers' personalities and the perceived personalities of brands (Martinez and Chernatony, 2004).

Consider the experience of shopping for a new car. You'll start with your own blend of perceptions, based on received ideas about the car and what you see on the street. You'll modify those views as you talk to others, including owners of the brand and model you're interested in, and as you read reviews and check the car's ratings in third-party reports (Hogan, Almquist and Glynn, 2005).

Consumer tastes and preferences for a product or brand might be built through one or more of six distinct modes (Alreck and Settle, 1999) :

- (1) Need association - The product or brand is linked to one need through repeated association.
- (2) Mood association - The mood is attached to the product or brand through repeated association.
- (3) Subconscious motivation - Suggestive symbols are used to excite consumers' subconscious motives.
- (4) Behavior modification - Consumers are conditioned to buy the brand by manipulating cues and rewards.
- (5) Cognitive processing - Perceptual and cognitive barriers are penetrated to create favorable attitudes.
- (6) Model emulation - Idealized social lifestyle models are presented for consumers to emulate.

All of the factors described above, in fact are clue for the process of the choice of factors. After determining the target market, the stage of choosing the most suitable factor and placing it into the ad is of prime importance. The well known fact is that, strategies are developed depending not on the product, but on target market. Obviously, there would be a plenty of serious changeables, between the factors that used for a target market including elderly consumers and a target market including juvenile consumers.

METHODOLOGY AND DATA

In this study, beside the academic literary comments, in determinants that form brand perception in the automotive sector, effect of the advertising is tested with the data gained from on a group of consumers.

Four different occupation and income groups representing the population are targeted. Ten individual experiment group representing this income and occupation segment. A discussion and question bunch is made to interview the subjects in depth about the determined hypothesis. In the automotive commercials, messages that emphasize the price and payment terms, in the forming of acquired associations on the subjects is questioned. In the same manner, the effect of attractivity messages on forming acquired association on the subjects is questioned in depth.

FINDINGS

Automotive sector has been chosen for the research. One reason for choosing the automobile industry is that commercials regarding automobile companies seem to have global value. Moreover this sector considers all the market segments, as target and used symbols intensively. Following the decision for sector choice, brand names and commercial they create have been chosen for conducting the research. The resulting four automobile companies have been taken as the sample for the investigation.

Focus group interviews and one to one interviews have been used in data collection process. Opinions of both parties namely the advertisement creator. And the consumer have been evaluated. At the first stage of the process the advertisement agency have been questioned for three mainstream lines of subjects which are,

1. What is the target segment?
2. What is the targeted perception for the brand?
3. On the basis of targeted perceptions, what messages did you emphasize on the tv advertisements?

After the survey completed on advertisement agencies, and then person focus group is formed including professionals and academics. Then this person focus group has been asked to watch the each of four commercials, and make an evaluation with the aid of a moderator. This focus group has been asked such questions as given belows:

1. What do you think the target market segment is for this commercial?
2. What messages does the commercial convey to consumers?
3. How those messages have been conveyed?
4. After you view the commercial, what perception did you develop?
5. Is the perception you have just developed consistent with the perception you had had about the brand or do you think commercial has been designed to create somehow different brand perception?

Lastly, information obtained from both sides, advertisement agencies and focus group, have been compared in order to determine to what extend the commercial met the goals first established. In addition to that how influential were commercials under investigation have contributed to the development brand perception were analyzed.

Brand names of automobile firms were chosen Renault, Fiat, Toyota and BMW. These four brands have been chosen due to their high commercial intensity on TV with the related time period. There have been some interesting symbols regarding the questioned commercials. Renault used the emphasis for an ordinary day that a professional worker who has a family drives the black car to work on a sunny day on a green field with a cafe for Renault Influence brand. Fiat the second brand emphasizes its old history since the beginning by the slogan "driven by the future" with the symbols of old models, characters suited to the periods, accelerated motions with a well-known music "Hit the Road Jack" and most impressive the way never finishing.

In its advertisement, BMW uses different car models with different colors, small model automobiles, a good quality slow music accompanied with a variety of different looking human characters. Lastly, Toyota uses a large number of happily sleeping children in its advertisement. Another symbol used in the successful and impressive music.

As the methodology used in the research, firstly names of the advertisement agencies producing the commercials were determined; Publicis Yorum for Renault Fluence, TBWA for BMW and Fiat commercials and Almeti Farika for Toyota. Interviews were contacted with these agencies creator directors.

Publicis Yorum has indicated that they manner to increase the sales as well as to improve quality and comfort perception of the brand. To achieve these goals they planned to use symbols that are impressive for upper income level consumers. Backward-looking questioning technique is preferred that might be valid in decision making process of consumers. Lastly, they target institutional sales by focusing on institutional customer in their advertisement.

TBWA / Istanbul designed and produced BMW and Fiat advertisements. We conducted an interview with creator director from that agency who put effort in producing the ads. For building the ad, they did not look for a new market segment but because of the price competition they focused on messages related to products and promotional activities. Furthermore they stressed BMW's large number of consumers already at hand and the

largest market share BMW has aiming all brands. Additionally, they stressed BMW's wide range of products with dynamic and safe production. Lastly, on the commerce they give the message that they are a big and happy family.

TBWA assets that for FIAT commerce they focus on the long historical background of the company has a significant impact on the development. But still there is a long way to be completed. They did not use much symbols for target market but put more emphasis on renewal of cars during the whole historical life with high speed motion technique.

Lastly, an in-depth interview was conducted with Alapati Farika the producer of Toyota commerce. The image of a small family car has been reinforced in the design with specific emphasis on safety and economy. They developed the commerce not for only national market but for also foreign markets. Moreover, they stressed customer focused messages in the design and did not consider any specific design for target market. The feelings of love and peace have been conveyed with the children sleeping in the Toyota car.

Later at the next step, the four advertisements have been watched by the focus-group consisting of ten people whose occupations are academics and professionals. Then they answered the questions objectively structured before and given on the previous page. This process is repeated for each of four ads.

Focused group members indicated that they perceived middle and upper middle classes targeted by the Renault Fluence advertisement. They come to this conclusion because of the professional man used and his appearance on the ad. The messages given have been to become extra ordinary, innovative and different in addition to future-looking symbols it carries. Viewers agreed upon that the commerce raised the question "what is the core idea in choosing the product – car?" Nevertheless, one of them found the commerce confusing and not easy to understand the message it carries.

For the perception the commerce develop on the viewers they came to different conclusions. Renault as a brand creates an image of becoming an extremely different product easily found and bought in the marketplace. They also conclude that middle-age people were targeted on the commerce. Moreover, the use of black car on the ad was found to be interesting by the viewers that gives a sense of maturity. The viewers expressed their perception for higher quality than before, after they watched the ad. When comparing after and before the commerce perceptions the viewers' recognition were found to be similar and not so much deviated with exception that one of the subjects claimed, he used his consider the brand representing more middle-class, but after watching the commerce, he perceived the brand as representing upper-class.

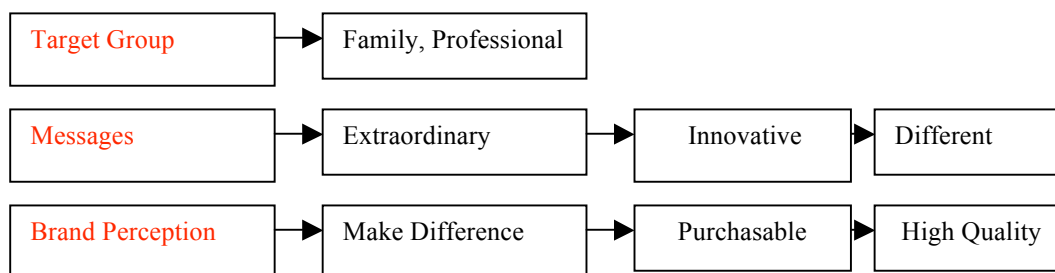


Figure 1 - The effect of Renault Fluence's advertisement on consumer after target group

Toyota commerce have been watched by focus-group members at the next stage. The common conclusion they came was the commerce stress put as "I can drive easily with my children." Thus, the target market was families. The messages given were found to be safety, comfort and peace. Another common conclusion driven for Toyota commerce was that it was funny and easy to remember, in combination with a very good music selected. The most important perception for the commerce was that there has not been any symbols for price recognition, in a manner that "Whatever the price is, I just can buy this car safely". Another common perception raised within the group was that family was expressed without picturing heavily in the commerce. The last message perceived was that the car never breaks down on the road and makes the distances closer. Another commonly shared view has been the before-and-after-commerce perceptions to become parallel, even similar and continuous motives used in a series of Toyota commerces focusing on safety and comfort.

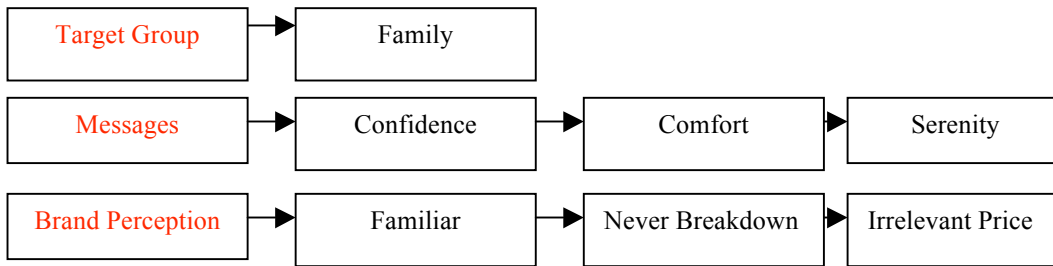


Figure 2 - The effect of Toyota's advertisement on consumer after target group

Focused group members subjected to BMW commerce have concluded easily that the target market is all the population without exception. This brings the conclusion that the BMW Company might have the strategy to increase its market share. The commerce gives a sense of “you are important for us” to the viewers and it stresses comfort; company positions itself as if they produce not only cars but art, so that the brand becomes a kind of passion for the consumers. Moreover, focus group members have the perception that this passionate might arise within young group of consumers. Additionally, differentiated views have been indicated within the group: These are; the brand created a life style and prestige. Now as a brand it is much more warmer than before. Viewers within the group have indicated their desire to buy the BMW car although their salary range doesn't fit the price. In the commerce a variety of shiny colors were chosen to reflect the intention to go beyond the current market segment and obtain new market segments. This breaks down the old image of classical appearance of the brand and changes it into a more dynamic and energetic brand perception. All the viewers shared the conclusion that the commerce has completely broken down the current perceptions for the brand and change it into a new one.

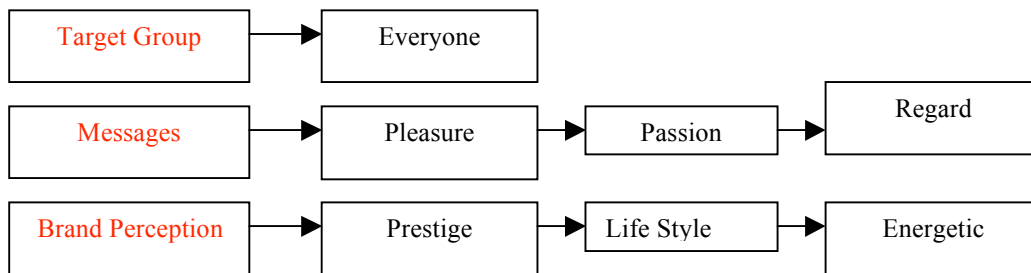


Figure 3 - The effect of BMW's advertisement on consumer after target group

Lastly, Fiat's advertisement was examined in this study. Viewers have concluded that the ad doesn't focus on targeting market, but rather has the message that we compete with ourselves, we are the one who determine the competitiveness, we have always existed, and always will exist. Additionally, innovation and openness to change has been strong emphasized strongly. Advertisement was considered not to be directed to consumers. The brand perception was the one that created respect and trust targeting the middle-class. The viewers also perceived the brand becoming the single one moving on the right direction. Only one of the subjects stated that the ad didn't mean anything to him and didn't improve brand perception in his mind but just it was funny and helpful for brand recognition. Common view for the ad was that all the group members found it impressive but before and after brand perceptions have been found extremely different.

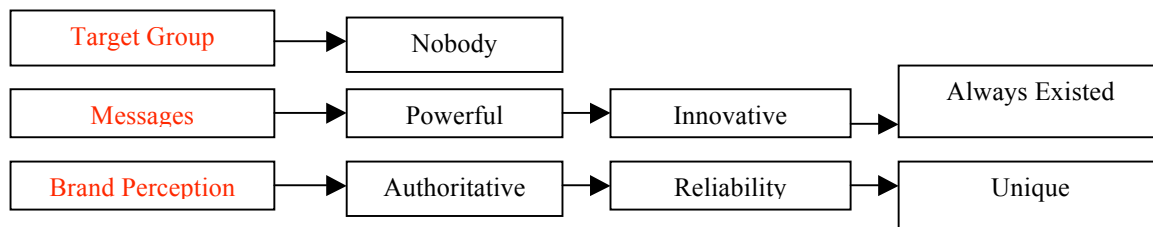


Figure 4 - The effect of FIAT's advertisement on consumer after target group

CONCLUSIONS

Interviews conducted with advertisement agencies and focus group members have been the approach used in this research study.

Advertisement designed for Renault has been successful in the manner that it conveys the messages to consumers targeted in the design having fitness between the perceptions of consumers and the planned content. It has found to be efficient in creating the consumer perception desired.

For BMW advertisement there has been a fit between the target market, content and consumers' brand perception. In achieving its targets, the advertisement has been successful but there has been somehow deviation from what is defined as target market. Obviously, although brand side didn't define any target market, consumers perceived an effort has been put to widen target market.

Fiat advertisement has obtained what is expected as consumers' brand perception. Both sides stressed, there has been no wonder about the targeting market. The definition of targeted market has been parallel to that of consumers' brand association.

Toyota advertisement has been successful because of the strong fit between the messages, target market definition and brand association. There has been a deviation between target market definitions of consumers and ad designers. Advertisement producers stated they didn't define market segment but consumers perceived families chosen as target.

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CONCEPT OF ARTIFICIAL SCARCITY IN FAST FASHION IN THE 21ST CENTURY MODERN MARKETING: “ZARA TURKEY EXAMPLE”

Mustafa AKSU
Halic University, Turkey
Güzide Öncü E. PEKTAŞ
Halic University, Turkey
Kazım KARABOĞA
Marmara University, Turkey

ABSTRACT

*Consumers desire continuous and new fashion trends with the changing consumer demands and needs and artificial scarcity introduced by the concept of fast fashion in the current postmodern marketing approach. Thus, corporations who intend to accommodate to these changing consumer demands and behaviors also involved in this process. The company Zara desires to acquire maximum profit in maturity period of the product with the concept of artificial scarcity and gets an advantage against its rivals and leads in the supply chain through the approach of artificial scarcity. Aim of this study is to explain the concept of artificial scarcity in fast fashion and to measure effect of this model on Zara consumers in Turkey. In addition, marketing efforts, supply chain and artificial scarcity with its relations in the product life curve are also expected to contribute in Turkish literature. Research methodology has two stages. The first stage is the technique of in-depth interview with directors of the company ZARA by the qualitative method. In the second stage, questionnaire study will be conducted by the quantitative research method. Relations between the **perceived concept of artificial scarcity** being the independent variable in the research model and **consumer behaviors** as well as **so-called expensiveness, perceived payable money, perceived value and perceived quality** variables being the dependent variables will be explained and interpreted with analyses in SPSS statistics program.*

Key Words: Fast Fashion, Artificial Scarcity, Consumer Behaviors, Supply Chain, Product Life Curve.

INTRODUCTION

Main philosophy of modern marketing is perform marketing activities in fashion concept as well as meeting consumer demand and needs in the fast changing world correctly and effectively. Such corporations responding the consumers on target market accurately and fast are also in a competition with other competitors on the market. Especially in such products with a short life cycle like ready-to-wear, speed of entering the market is a critical component in terms of competitive advantage. Just at that point, we encounter with a brand-new concept, concept of **fast fashion**. “**Fast fashion**” is providing the customer with the newest, last fashion products in stores by creating freedom and excitement of shopping. They are the products shaped with the approaches of fast production, low price, use-and-dispose or “wear for a few times” and offered on the market. Fast fashion retailers must firstly position well on the market and create brand awareness and loyalty in the consumers in order to obtain an artificial scarcity rent. Fashion retailers must be such companies consistent with fashion with the styles exactly desired by the customer in a shorter time than all other companies and take their places of the shelf faster than competitors. This is only achieved by following fashion, stocking their products in certain numbers, developing new designs and creating product diversity. Some consumers stock products not only to consume in the future but also with the fear of non-availability. Decision making process of the consumer is very limited by the effect of new fashion and scarcity factors and these factors lead the consumer to some type of “reflex purchase”. This shows effect of artificial scarcity of product life curve. There are differences between the classical product life curve and the product life curve influenced by artificial scarcity.

LITERATURE REVIEW

1. CONCEPT OF FAST FASHION

Phenomenon of fashion which is directly related to human and society is in the position of a mirror reflecting many formations like thought, habit, lifestyle etc. realized in societies. Fashion comes from “Modus” in Latin meaning limit. It was used in medieval French as La Mode. The words fashion and modern derived from the Latin words *moda*, *modus* and *modernus* mean “just now, not belonging to yesterday”. However, *fashion* in its present meaning is a word used to define topical dressing styles of people in a general sense like way, style, form, manner, action, behavior, speaking, writing, life style. (Pektas, 2008, 1) According to Frisby and Simmel, fashion is a social form combining attraction of differentiation and change with similarity and harmony. Fashion provides people with the opportunity to be different and also to be an individual and provides social belonging ensuring similarity with the reference groups. (Pektas, 2008, 2)

Main philosophy of modern marketing is perform marketing activities in fashion concept as well as meeting consumer demand and needs in the fast changing world correctly and effectively. Such corporations responding the consumers on target market accurately and fast are also in a competition with other competitors on the market. Especially in such products with a short life cycle like ready-to-wear, speed of entering the market is a critical component in terms of competitive advantage (Hayes and Jones, 2006; Byun and Sternquist, 2008, 134). Just at that point, we encounter with a brand-new concept, concept of *fast fashion*.

Term of fast fashion was firstly defined by Moore and Fernie as response strategies to the last trends in fashion in a commercial sense. (Byun and Sternquist, 2008; 134) In another definition, “*fast fashion*” means providing the customer with the newest, last fashion products in stores by creating freedom and excitement of shopping. They are the products shaped with the approaches of fast production, low price, use-and-dispose or “wear for a few times” and offered on the market. (Ghemawat and Nueno; 2003, 1) Fast fashion retailers treat fashion by resembling it to the thought of spoilage of the foods in food sector and offer almost weekly products on the market to remain updated. Since this idea is derived from the idea of “fast food”, it is called *fast fashion*. (Byun and Sternquist, 2008, 135)

There is no consensus in definition of the concept of fast fashion and previous definitions could not fully define the most significant components of fast fashion strategy. Therefore, we may synthesize fast fashion definitions, responding the latest fashion trends or updating products in short renewal period cycles or rapidly changing inventory. Moreover, latest fashion trends follow-up and short renewal cycles are connected to limited sources. In other words, fast fashion retailers stock less products to consume them in a short time interval in order to keep themselves updated. (Dutta 2002, Moore and Fernie 2004; Byun and Sternquist, 2008, 135) The most significant two components of fast fashion strategy are renewal cycle and limited source.

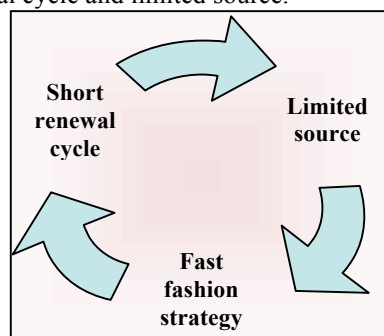


Figure 1. Fast Fashion Strategies

Source: Developed by the researcher by inspired from Byun and Stemquist, 2008.

ARTIFICIAL SCARCITY

Prior to proceeding with definition and use of artificial scarcity on the market, concepts of scarcity, scarcity law and scarcity rent are presented below respectively:

Scarcity: It is insufficiency of goods and services to meet human needs. It is a relative concept and economic sources are also considered scarce since they are not sufficient to meet human needs. It requires a good distribution of sources among alternative areas of use due to scarcity. (Parasiz, 1999, p.340; Seyidoglu, 2002, p.352; February 23, 2010, <http://www.metinberber.com>)

Scarcity Law: Basic doctrine of capitalism is established on this concept. It is a doctrine expressing that sources are scarce and human requirements are limitless. According to this doctrine, supply would be insufficient due to scarce sources, so there would be an increase in product prices naturally (Parasiz, 1999, p.340; Seyidoglu, 2002, p.352; February 23, 2010, <http://www.metinberber.com>)

Scarcity Rent: The consideration paid for a scarce source is called scarcity rent. There is a separation between natural scarcity and artificial scarcity. Supply of a source which is naturally scarce is never *flexible*. Owners of such a source may get surplus. Supply of a factor which is classified as artificially scarce, however, is a not fully inelastic. Owner of such a source gets monopoly rent. Source of artificial scarcity includes some limitations arising from law. A patent provided to an inventor, a copyright given to an author, right to participate in some professions and right to carry out some activities create scarcity artificially and provide monopoly rent for their owner. Economic rent is a payment made or attributed for a source beyond the consideration necessary for it to perform its function. Natural limitations and administrative restrictions preventing expansion of supply and monopoly factors cause occurrence of scarcity rent. (www.ekodialog.com 23.02.2010)

Considering in economical terms, explanations above may be sufficient but concept of artificial scarcity has a more different form in terms of marketing. First, a product may not be necessarily a rare asset for being a scarce source. Companies reflect consumers a perception of scarcity which is actually not the case in order to get scarcity rent and maximize their profitability based on scarcity law. Thus, companies may offer the products they produce to consumers without discount or at minimum discount rates and consumers may make payments relatively higher than normal considerations of products.

There are two dominant factors affecting values of fashion. They are *price* and *artificial scarcity*. (Szybillo 1973; Byun and Sternquist, 2008, 137) In general, consumers interpret that higher prices cause artificial scarcity in products or point out that products are relatively non-available. However, Daniels argues that they decrease perceived value in higher priced clothes in middle level mass production. According to Daniels, relatively lower priced products in certain numbers increase their attraction value. In his studies, while available products are in a certain number, value of the products under the effect of artificial scarcity price steps has a more critic significance than value of such products which may be perceived as unique and valuable even if they are at lower prices. (Byun and Sternquist, 2008, 137)

This artificial scarcity is a strategy applied by fast fashion retailers. Certain number of offered products causes a short renewal circle for product range and helps in providing place for new goods. Therefore, availability of products is limited and products are not available in the next time slice. In general, rare raw materials are liked more than those which are easily available. (Lynn 1992; Byun and Sternquist, 2008; 137) Positive value of artificial scarcity is its support from raw material theory of known artificial scarcity effect. (Brock 1968; Szybillo 1973; Byun and Sternquist, 2008, 137) meaning of raw material theory does not include messages, experience or subjects. This theory is parallel with the following three criteria: *being useable, portable from one place to another and having a certain potential*. This theory says in advance that value of raw material would increase due to ongoing perception of non-availability. (Brock 1968; Szybillo 1973; Byun and Sternquist, 2008, p. 137)

Fast fashion retailers must firstly position well on the market and create brand awareness and loyalty in the consumers in order to obtain an artificial scarcity rent. In addition, they must be a fashion retailer strictly following fashion and must have a large design team working hard and a good information network and a good supply chain network. Fashion retailers must be such companies consistent with fashion with the styles exactly desired by the customer in a shorter time than all other companies and take their places of the shelf faster than competitors. Moreover, fashion retailers must keep perceived value and attraction of the products they produce high. This is only achieved by following fashion, stocking their products in certain numbers, developing new designs and creating product diversity. Certain number of products and lots of ranges ensure a shorter product renewal circle and help in minimizing in-store stock levels. Besides, possibility of increase of desired products is less in artificial scarcity due to limited supply, so this causes an increase in consumers' perceptions to the effect that favorite preferences of persons may not be found in the future. Some consumers stock products not only to consume in the future but also with the fear of non-availability. (Frost and Gross 1993; Byun and Sternquist, 2008; 135) Some consumers, however, tend to stock products with the fear of scarcity immediately before they are purchased by other consumers. At the same time, positive value of scarcity of products is its ability to reinforce the idea of product stock automatically. Consumers desiring to get their products timely stock

the products with the intention of minimizing risk perception related to problem of non-availability. (Ten and Chua 2004; Byun and Sternquist, 2008; 137):

Significant approaches of artificial scarcity phenomenon:

- It helps in acceleration of purchasing trend in consumers.
- It affects perceptions of consumers about products positively.
- It enables consumers to pay higher prices for the products they desire to purchase relatively.
- It shortens life course and cycle periods of products.
- It helps in minimizing in-store stock levels.
- It reduces discount rates of fast fashion retailers.
- It helps in delivery of products to more persons since it addresses not only to higher income group but also to middle sized consumers in the consumer audience due to fast retail.
- It allows middle level mass production contrary to lower production level of the fashion products addressing to the higher income group.
- It is also very important for creation of brand loyalty since it creates unique and valuable perception even if it is lower priced relatively.

2. 21ST CENTURY MODERN MARKETING APPROACHES AND ARTIFICIAL SCARCITY STRATEGY

There are many concepts introduced for functionality of marketing activity. In this context, there are various approaches under different names.

Fluctuations, crises in the world economy, e-commerce and virtual communication opportunities provided by internet changed traditional product range, presentation, distribution and transportation methods. Effects of postmodern culture on consumption forms include collective presentation of unrelated products based on location use, utilization of postmodern art in promotion and advertising activities, presentation of marketing communication messages by an eclectic approach. (Babacan and Onat 2009;11)

Therefore, marketing function actively serving in meeting needs of people continues its classical role in economy silently and mostly making soft transitions from one concept to another and embracing a new application almost every day. (Babacan and Onat 2009;13)

As an attractive application in modern marketing approach, concept of fast consumption is applied to the clothing sector and fast shelf cycles are formed fed by lots of ranges. This application also caused changes in consumer behaviors. Strategy of lots of ranges and fast model cycles in the latest fashion products gives rise to artificial scarcity phenomenon in consumers. This artificial scarcity phenomenon runs their purchasing behavior against possibility of fast consumption of products or in their tendency to immediately purchase the product they like very much and causes them to make payment for products when they are at higher prices.

In short, “phenomenon of fast consumption and artificial scarcity” is a postmodern marketing approach which ensured consumers to consume the latest fashion products fast by enabling the companies branded in the global level to feed their products with the concept of scarcity which does not exist actually with the advantage of their brand power, caused consumers to follow brand continuously.

3. PRODUCT LIFE CURVE IN FAST FASHION

Concept of fast fashion is designed as a “policy” for achieving strategic operational goals and targets including increasing profit margin, increasing total sales, creating and/or developing corporate and brand images etc. by designing “differentiation”, “diversification”, “actually a new product” and other “innovative” properties in a certain product in certain intervals and presenting the latest fashion trends to consumers. It is essential to plan operational functions very well to create fast fashion and apply successfully.

For success, it is very important to manage activities of “supply chain” especially including supply, production, inventory management, stock policies, transportation, after-sales activities, pricing and discounts, performance measurements, relational marketing, technology and information management (Birgun et. al., 2007; 35). In normal course, considering fashion as a movement which occurred by the effect of local and global factors and being changed in a cyclic manner, phenomenon of “Fast Fashion” provides high contribution margin and recovery of investment (if made) in a short time for the product since it enables corporations to lead consumers by using various marketing methods acting proactively and it both satisfies feelings of the consumer to be the first and to gain prestige and causes the corporation to supply an innovative product to the market by creating a fashion trend very shorter than normal. For successful change by fast

fashion; the following factors must be considered and must exist. They also play an effective role in creation of concept of fast fashion.

Table 1. The things which must be done for corporations in creation of fast fashion

➤	Brand image must have been created.
➤	The corporation must be well-known by national and international markets in a corporate sense. (Corporate image)
➤	It is necessary to create a quality image to the extent expected by target consumer audience.
➤	It may offer effective after-sales services.
➤	It is essential to establish top level of communication with consumer. (relational marketing)
➤	Logistics/transportation activities
➤	Number of audit of supply sources
➤	Production locations (own plants of corporation and/or contract manufacturing)
➤	Raw material and material stock control and management
➤	Sales policies (Sales in own stores, sales through dealers etc.)
➤	Strategic sales points and coordination between sales points
➤	Effective use of marketing information system
➤	Cost and sales analyses
➤	Performance analyses
➤	Determination of customer satisfaction and future expectations

Life cycle of the products used in creation of fast fashion:

In general; it is observed that all living and lifeless creatures in the world undergo a set of stages from birth to death. They are seen as a process including birth, growth, maturity and death. The process in question is considered as “Product Life Cycle” in marketing literature and consists of the processes of entry on the market (presentation of the product to the consumer for the first time), growth (increase in sales on the market), maturity (continuation of a certain sales level in case of severe competition and saturation point of consumer) and finally decline representing the processes of presentation of innovative products on the market and fast decrease in sales due to resistance of consumer demand against the said products, removal of product from the market or keeping it for further some period on the market by various marketing methods.

Significance of Product Life Cycle for Corporate directors is required by application of different product price, promotion, distribution and after-sales service policies at life cycle stages of the product. Normal life cycle of a product supplied by a corporation on the market under the established marketing strategies is given in the following graphic.

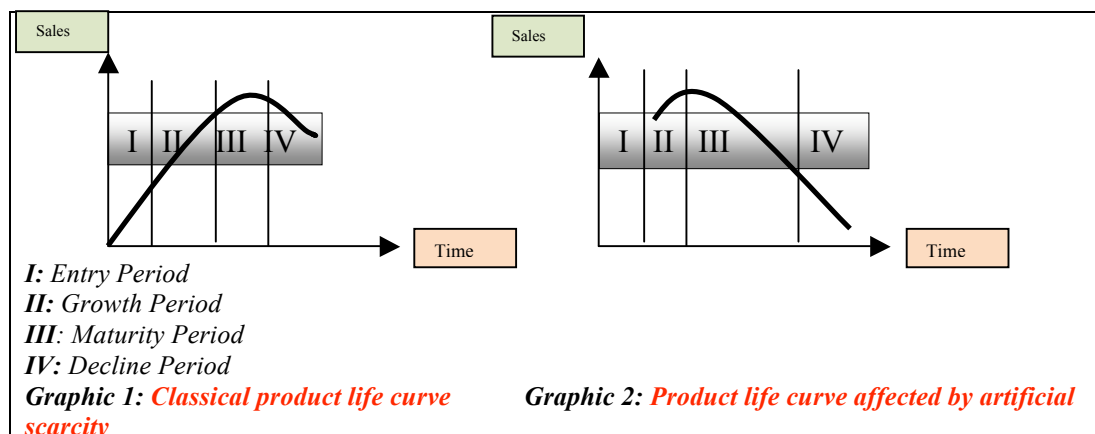


Figure 2. Classical Product Life Curve and Product Life Curve Affected by Artificial Scarcity

In such products being subject of fast fashion, however, the consumer essentially waits innovation periodically due to position of the corporation creating the fashion on the market and gets information about the fashion and follows both national and international fashion trends. Thus, he has sufficient information about the products presented as new fashion. (Conscious Consumer)

This case, in turn, directs purchasing decision process of the consumer; limits it very much and lead him to some type of “reflex purchase” by the effect of new fashion and non-availability (scarcity) factors.

For the reasons summarized above, life cycle of the products under fast fashion has significant differences than normal. To the effect;

1. **Period of entry on the market:** Since consumer is conscious, entry period is exclusively short or there is no entry period. Aim of the consumer is to create privilege in society by purchasing the product supplied in a low number in the established price level.

2. **Period of growth:** Basically, it is short since investment made for the product/products considered by the consumer as innovative and fashion in entry period is retaken in the first period and sales increase above normal due to “scarcity” policy of the corporation. It is possible for competitors to put similar products and imitative products on the market in this period.

3. **Period of maturity:** In this period, there is a decreasing trend since the consumers perceiving the concept of fast fashion mostly made their purchases at the beginning but introduced “new fashion” created new consumers and led them to purchase and it may be longer than the period of growth normally.

4. **Period of decline:** As required by the application of fast fashion; where the new (innovative product placed on the market achieved the sales and profit targets established by the corporation and it is necessary to create a new “fashion”, it is the stage of recalling the product or products from the market or returning them in normal statuses with various differentiation applications.

4. RESEARCH

The aim is to reveal the relation model between perceived artificial scarcity concept being the independent variable in the research methodology and consumer behaviors (desired purchasing behavior) being the dependent variable with statistical analyses.

Considering the frequencies for demographic variables, 159 valid questionnaires, mostly visited Zara Store is cevahir store followed by Capacity, Town Center and Ankamall stores. Given the frequencies of visiting Zara stores, variable of 1 visit per month is the mostly selected option with 58 answers. 30% of the participants are men and 70% of them are women. 65% of the participants are single and 32% of them are married with 3% widow. More than 40% of the participants include young person in between the ages of 21-25. 45% of the participants are graduate, 27% are postgraduate and above and 22% are undergraduates. In addition, most of them are undergraduates by 27%, private sector officers and civil servants by 22%.

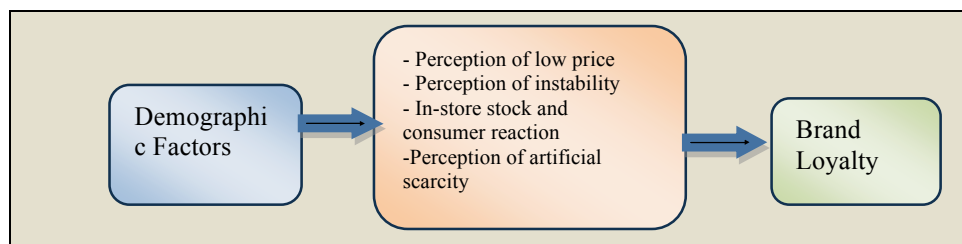


Figure 3. Research Model

All of 23 questions (before excluded questions) in the questionnaire form were made subject to factor analysis by basic components method and Varimax turning method. 4 questions with a factor weight below 0.50 were excluded and 19 variables were undergone factor analysis. All variables were collected under 4 factors following factor analysis. KMO value showing consistency with factor analysis was found high about 0.829. Cronbach Alpha (reliability) values of variables were assessed and Cronbach Alpha (reliability) values of all variables were found as 0.859. This shows almost a perfect result. Respective reliability values of factor analysis groups also provided good results. All data results are shown in the table above in detail. These Factors: **Low Price Perception, Perception of Instability, In-store Stock and Consumer Reaction, Perception of Artificial Scarcity.**

Table 2. Factor Analysis Results

Name of Factor	Question Expressions	Factor Weights	Expressiveness of Factor (%)	Reliability
1. Perception of low price	• Prices are very favorable in Zara stores.	0,905	17,930	0,921
	• Zara branded products are economic.	0,883		
	• Prices are appropriate for my budget for shopping for clothes.	0,853		
	• Zara branded products are not expensive.	0,849		
2. Perception of Instability	• Zara brand introduced new fashion styles in its stores fast.	0,855	17,243	0,846
	• New models are promoted in Zara stores frequently.	0,773		
	• Products in Zara stores are consistent with fashion trend and styles.	0,756		
	• Cycle speed and circulation of products are very high in Zara stores.	0,723		
	• Products in Zara stores move very fast.	0,668		
	• Products in Zara stores do not wait on shelves very long.	0,509		
3. In-store Stock and Consumer Reaction	• I collect the products I am interested in Zara stores fast and keep them for myself.	0,794	16,790	0,760
	• Although I am not sure to purchase the products in Zara stores, I do not want to leave back the products that I already collected.	0,793		
	• I find a way to purchase such things that I desire to immediately buy in Zara stores although they are not included in my shopping list.	0,740		
	• I purchase products in Zara stores immediately and rapidly (I catch them)	0,612		
	• I make excessive payment to buy products during shopping in Zara stores.	0,567		
	• I am driven to buy the product with an expression on it like "Limited in stock!".			
4. Perception of Artificial Scarcity	• Products that I am interested in Zara stores are generally the products which are little in stock.	0,804	10,643	0,670
	• Sizes, colors and styles of the products in Zara store are in a limited number.	0,777		
	• It is difficult to find a product that I am interested in Zara stores when I visit the store for the second time to but that product.	0,542		

Table 3. Regression Analysis:

Model	R	R Square	Adjusted R Square Value (Adj. R ²)	Estimated Standard Deviation
1	0,547 (a)	0,299	0,282	0,544

The table above shows expressiveness of independent variables on dependent variables following regression analysis of research model and participants' levels of loyalty to Zara stores. R square value is below the value of 0.50 (0,299) indicating store loyalty levels of Zara customers are not very strong. However, it may be also interpreted as a value not very low within the Turkish market.

Table 4. Regression Analysis Coefficient

	Beta	St. Error	St. Beta	t value	p value (sig.)	VIF
Fixed value (Constant)	3,615	0,043		83,658	0	
Perception of low price	0,054	0,043	0,084	1,247	0,214	1
Perception of instability	0,248	0,043	0,386	5,720	0,000	1
In-store Stock and Consumer Reaction	0,226	0,043	0,352	5,220	0,000	1
Perception of Artificial Scarcity	0,089	0,043	0,139	2,055	0,042	1

In the table for regression analysis result above, those p values taken by the factor groups below 0.05 were selected and loyalty value was determined by the groups contributing in the group including the 2nd factor (Perception of Instability); 3rd factor (In-store Stock and Consumer Reaction) and 4th factor (Perception of Artificial Scarcity) which are statistically significant. In the model, the factor providing the highest contribution in loyalty value is the 2nd Factor being perception of instability.

Hypothesis tests: T test and Anova analysis were performed between factors groups and demographic characteristics one by one. In t test, there was no difference in hypotheses between gender and factor groups. In Anova analyses, however, a significant relation was found only between educational background and marital status between all factor groups and demographic variables. Results of these hypotheses are given below. There was a significant relation between educational levels and the 4th Factor.

H0: There is not a significant difference between educational background and perception of artificial scarcity of the participants.

H1: There is a significant difference between educational background and perception of artificial scarcity of the participants.

Zero hypotheses is rejected since p value is $0.049 < 0.05$ following the single-way variance analysis (anova) performed for comparison of educational background of the participants and their reactions to artificial scarcity variable, alternative hypothesis is accepted. Tkeu and Scheffe were applied among post hoc tests in order to find the group creating difference. Accordingly, those graduated from high school got the highest score and graduate and post graduates got the lowest score.

H0: There is not a significant difference between the participants in terms of in-store stock and consumer reaction by their marital status.

H1: There is a significant difference between the participants in terms of in-store stock and consumer reaction by their marital status.

Zero hypotheses is rejected since p value is $0.07 < 0.05$ following the single-way variance analysis (anova) performed for comparison of educational background of the participants and their reactions to artificial scarcity variable, alternative hypothesis is accepted. Accordingly, there is a significant difference between the participants in terms of in-store stock and consumer reaction by their marital status. The group creating this difference is the group of single participants with the highest value.

Factor groups were examined one by one with loyalty variable from hypothesis tests. There was no meaningful relation between loyalty average and factor groups.

5. RESULT AND EVALUATION

Fast fashion and concept of artificial scarcity provides a benefit as a different policy to provide the consumer with the latest fashion trends through differentiation, diversification in certain products in

certain intervals and design of innovative products and thus to increase total sales, establish corporate and brand image and reach strategic corporate goals and targets.

In research part of the study questionnaires were applied to 159 consumers by convenience sampling method. Frequency analyses, regression analysis and factor analysis were interpreted in SPSS statistics program. In the research model, effect of demographic characteristics on low price perception, perception of instability, in-store stock and consumer reaction and perception of artificial scarcity was examined and its effect on the dependent variable brand loyalty was examined. Following Factor analysis, questions were collected under 4 factors according to data results of the participants of the research. They include *low price perception, perception of instability, in-store stock and consumer reaction and finally perception of artificial scarcity*. Meaningful relation between factor groups and demographic characteristics was examined by T-test and Anova tests. Following hypothesis tests, a meaningful relation was found only between educational levels and marital status. Factor groups were examined one by one with the loyalty variable from hypothesis tests. No meaningful relation was found between loyalty average and factor groups. This shows that store loyalty levels of Zara customers are not very strong. However, it may be said that it is not so low in the Turkish market. In regression analysis, the factor with the highest contribution in the loyalty value being beta value is the 2nd factor Perception of Instability. Here, the most determinant variable in level of loyalty of consumers to the brand is perception of instability in creation of artificial scarcity.

Concept of artificial scarcity in fast fashion and production of artificial scarcity perception in the consumer following the study titled “Zara Turkey” attracts attention as an effective marketing approach to speed up purchasing trends, shorten course of product life curves and speed up cycle times and also to minimize in-store stock levels and reduce costs and enable companies to sell their products without discount. Companies are able to maximize their profits since they can sell their products without discount or at the minimum discount rates. Based on the variables and research results in the light of this study, corporations may apply the concept of artificial scarcity and get high profits with low stock management. This study is intended to provide positive contributions in academic literature and business world with its contribution in the Turkish literature.

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THE IMPACT OF GENDER AND EDUCATION ON PERCEPTIONS OF ORGANIZATIONAL REPUTATION

Ayşe Oğuzlar
Mehmet Eymen Eryılmaz

Uludağ University, Turkey

ABSTRACT

This study researched whether there are differences between sub-stakeholder groups related to importance levels and ranks of reputation-determining factors. This question is of great importance because if variables such as gender and educational status create sub-stakeholder groups influencing the perception of the organizational reputation, then organizations will have to prepare a separate reputation message for each sub-stakeholder group. In addition, such a situation may affect intra-organizational dynamics and change the balance of power among units. Also, some managerial positions may gain importance and legitimacy at the expense of others. The findings were determined using the Analytic Hierarchy Process (AHP) method and some additional statistical analyses revealed that the importance order and level of the reputation-determining factors, differentiate partially in terms of gender and to a great extent in terms of educational status. The findings of this study point out that organizations should strategically shape their reputation messages in terms of gender and educational status and reputation building is indeed a much more complicated task than has been stressed in the majority of related literature to date.

Keywords: *Organizational reputation, sub-stakeholder groups, analytic hierarchy process, freewill, environmental determinism, hotels, Turkey.*

INTRODUCTION

Reputation is a concept which has increasingly drawn the attention of both management-organization studies and other literature (e.g., Abramowitz, (1975) and Caldeira (1983) in political science; Raub and Weesie, (1990) in sociology; Grunig (1997) in education; Bar-Isaac (2003), Horner (2002) and Tadelis (1999) in economics). 99% of CEOs who participated in a survey supported the idea (Resnick, 2004) that the reputation of an organization is more important today when compared to the past. On the other hand, although the difficulties in managing this concept have been focused on extensively in related literature, some possible sources of difficulty such as the existence of sub-stakeholder groups, which have to be taken into account, remain untouched to a large extent.

It is possible to say that there are three main schools of thought in organization theory literature, dealing with environment-organization relations, which is accepted as one of the central debates of organization theory (Astley and Van de Ven, 1983). The first of these, the *environmental determinism* school (Hannan and Freeman, 1977, 1984), constructed on a social Darwinism approach to a great extent, suggests that organizations do not have much opportunity to choose, and the survival of an organization is 'granted' by its technical (task) or economic environment. Since the proponents of this perspective tend to view managers as generally superfluous (Hambrick and Finkelstein, 1990), it can be expected that this school of thought regards the concept of reputation as an almost absolute given from the environment to the organization. Another school of thought, the *voluntaristic* or *strategic choice* school (Child, 1972; Montanari, 1978; Whittington, 1988, 1989), suggests that organizations and their managers have more than sufficient opportunity to shape their own fates. It is possible that this school considers a high and positive reputation mainly as a consequence of 'actions' of 'agents'. The dominant paradigm in current reputation literature seems to be consistent with this perspective to a large extent. Finally, the third school of thought, the *reconciliation* school claims that both environment and organizations shape each other reciprocally and suggests 'a dialectic between free will and determinism' (Bourgeois, 1984). Therefore, the reputation of an organization is influenced by its environment but the organization also may contribute to reconstruction of the environment through its reputation.

The purpose of this study was to understand whether gender and educational status of individuals are possible determining factors in the shaping of reputation perceptions of organizations, in addition to national culture and stakeholder groups. If variables such as gender, educational status, age, marital status, income level, religion, ethnicity, occupation and political view influence the perception of an organization's reputation, then the

organization will have to prepare a separate reputation message for each sub-stakeholder group and deliver this message to the related group in a proper manner. In this context, if the predicted results are obtained, this will support the eclectic idea (e.g., Bourgeois, 1984; Hambrick and Finkelstein, 1990; Pfeffer and Salancik, 1978) consistent with the third school of thought suggesting that in the formation of reputation, the organization does not have absolute freedom of will, but neither is it completely bound by the environment. If the findings are consistent with our predictions, this may engender important and sometimes *asymmetrical* results at different levels of analysis. For example, a drastic change or diversification in beliefs, a '*post-paradigmatic diaspora*' (Lather, 1992 cited from Caputo, 1987), within organizations regarding reputation management concept and professionals emerge and the power relations between departments in organizations may radically change as a result. In addition, although reputation is sometimes depicted as 'the outcome of legitimation processes' (Rao, 1994: 30), some scepticism regarding peremptory manageability of reputation is likely to erode the legitimacy of some managers and units. For instance, the emergence of a belief concerning the unmanageability of organizational reputation to a large extent, may bring on a questioning of the '*moral*' and notably '*pragmatic legitimacy*' (Suchman, 1995) and existence of reputation management departments in organizations. In this situation, these managers may seek to develop some '*remedial tactics*' (Giacalone, 1988 cited from Goffman, 1971) and strategies to re-legitimize their positions in the eyes of the principals and the whole of society. Or, on the contrary, a perception relating to difficulties in the management of reputation may also consolidate the public relations or reputation managers' positions in some organizations. In short, it can be said that these new beliefs about manageability of reputation seem to have the potential to create major changes in organizational dynamics regardless of the directions of these beliefs. A possible plethora of reputational variables can also trigger off significant results for other levels of organizational analysis as well. For example, the emergence of abundant variables which have to be taken into account during the efforts of reputation-building may bring on a '*polypraxism*' (Erlingsdottir and Lindberg, 2005) regarding the reputation practices among organizations in an organizational field. In other words, as put forth by Morris and Lancaster (2006: 209), 'even if the packaging stays the same' to a great extent, the content may change. With this aim, in the second section of this paper, the literature relating to the concept of reputation and some possible complications in its management is reviewed, then the research methodology is described in detail. The findings of the study are given and finally, the conclusion is presented.

ORGANIZATIONAL REPUTATION CONCEPT, FORMATION PROCESS AND SOME POSSIBLE DIFFICULTIES IN ITS MANAGEMENT

There are several studies defining the concept of organizational reputation in various ways. For example, according to one study, reputation is the consequence of a process during which the organization delivers the information about itself in the form of signals to the environment, in order to maximize its social status (Shapiro, 1983). In another study, Fombrun and van Riel (1997: 10) explain the concept of organizational reputation as a 'collective and subjective assessment of the reliability of the organization, based on past performance of the organization'. Also, Morten (1998: 122) defines reputation as 'an element which facilitates economic transactions in an indefinite world'. According to another definition, 'reputation is the perceptions of an individual, group or many groups about the organization after a certain period of time' (Balmer and Greyser, 2002: 76). Finally, Argenti and Druckenmiller (2004: 369) define organizational reputation as 'the collective representation of multiple constituencies' images of a company built up over time and based on a company's identity programs, its performance and how constituencies have perceived its behavior'. In some studies it is possible to find that reputation is used as a synonym for image and identity concepts. However, contrary to the "*analogous school of thought*" (Gotsi and Wilson, 2001), the authors of this study believe that the concept of reputation is different from that of image and identity. The reasons behind this belief will be dealt with later in the study.

There are various reputation models with different steps in literature which endeavor to clarify the process of reputation formation (e.g., Deephouse, 2002). However, it is possible to note that organizational reputation emerges after a two-step process. The first step is that, in a world of imperfect information, signals about the organization reach the minds of individuals or groups, to form a reputation perception. The information about the organization can either be acquired through direct contact of the subjects with the related organization or through other subjects who had a former experience with the organization or through media organs (Gotsi and Wilson, 2001). In the second step of the process, by interpreting the information, the individual or group determines a reputation level in their mind.

Organizational reputation is a concept with inherent difficulties regarding its management. If the organizations are in direct contact with the related subjects at the first step of reputation formation, they have to deliver an accurate message in a proper way, in order to establish a positive and strong reputation. Another problem is that at this step the sources of information about an organization are sometimes other subjects and the media. In this situation, it will be rather grueling for the organization to intervene with signals about itself and transmit them to related subjects. It is possible for some large-scale organizations to control the delivery of information about themselves to a certain extent by co-opting media organs (Sönmez, 1992), but only a few organizations can benefit from this. Lewellyn (2002: 453) supports this, stating ‘Although firms cannot control the initiation of image messages by external sources, for example, the media...’.

At the second stage of the process, the difficulty in the management of reputation stems from the high number of variables to be taken into account. Organizations in the international arena in particular have to manage the concept by considering national cultures and different stakeholder groups in each culture. For example, the study of Poon and Low (2005) suggests that, while assessing hotels, western and Asian tourists attribute different importance degrees to the offered criteria. In another study, Gardberg (2006) notes that, unlike the negative reputation in North America, Philip Morris have a quite positive reputation in Italy. Wang and Wang (2007) also draw attention to the concept of “consumer nationalism” and contend that organizations that want to solidify their reputations in China, should take into account nationalism and comprehend contemporary Chinese consumer behavior. Finally, according to Nişancı (2002), the Republic of Turkey was contrasted with the Ottoman Empire by the founding elite of the republic. In this dichotomy, the Ottoman Empire has been portrayed as traditionalist and patrimonial whereas the young Republic of Turkey is identified as modernist. On the other hand, numerous *sine qua nons* of the modernism discourse such as constitutional state, political parties, democracy and secularism have not been completely transformed into the reality in this setting. Then, this context has enabled governments to adopt a neo-patrimonial political stance. Also, one of the hallmarks of the Turkish economy is the role of the state as a dominant actor (Özen, 2002). In the Turkish context, since neo-patrimonial and statist stances are largely dominant in respectively politics and economics, the robust and close relationships with the state may be one of the most important factors shaping perceptions of various groups concerning the organizational reputation. So, considering the values, beliefs, norms and context of each culture, organizations in contact with different national cultures have to create a message, on which their reputation will be built.

In addition, organizations have to prepare a different message for each stakeholder group in each country. As is known, stakeholders are the groups which have an interaction with the organization, which steer the attitude of the organization and which, at the same time, are influenced by them (Freeman, 1984). Stakeholder group examples may include employees, shareholders, customers, suppliers, distributors, industry partners, competitors, unions, investors, trade unions, regulators, activist groups, non-governmental organizations and general society. While determining organizational reputation, each of these stakeholder groups deals with different information segments related to the organization (Fombrun and Shanley, 1990; Fombrun and van Riel, 1997). For example, the investors constitute an organization reputation in their minds, focusing primarily on financial information such as profitability and rates of return to investments, whereas customers will first seek to obtain information regarding the product and service (Dentchev and Heene, 2004). Also, reputation elements sought by employees may be salary, job title, job security and career opportunities (Goldberg, Cohen and Feigenbaum, 1993). In a similar vein, Cable and Graham (2000: 929) indicated that ‘the type of industry in which a firm operates, the opportunities that a firm provides for employee development, and organizational culture affect job seekers’ reputation perceptions’. Finally, consistent with these claims and findings, Helm (2007)’s reputation research also revealed that 98.7% of the consumers who participated in her study, expressed an opinion about the product quality of a firm. However, only 61.7% of them commented on the issue of “treatment of employees”. So, even if the organization has outstanding performance in issues such as product-service quality, leadership and vision, social responsibility, workplace environment, emotional appeal and financial efforts (Fombrun, Gardberg and Sever, 2000), unless it delivers accurate messages to different groups, it will face the risk of failing to turn this success into a high reputation (Dollinger, Golden and Saxton, 1997).

Within stakeholder groups, sub-groups, or in other words sub-stakeholder groups with common characteristics such as gender, educational status, age, marital status, income level, religion, ethnicity, occupation and political view may emerge and these sub-group identities may profoundly affect individuals’ perceptions and expectations. For example, Min, Min and Chung (2002: 279) found ‘a systematic pattern between the occupation of male tourists and their patronage behaviors’. Also Yancey and his colleagues (2006) revealed that overweight self-perception of individuals is affected by their ethnic variations. In another study, Allensworth-Davies and his friends (2007) indicated that racio-ethnicity of nursing assistants is associated with their perceptions regarding

organizational cultural competency. Finally, Ou (2007) showed that age and income positively moderate the relationship between reputation and respectively travel time and shopping expenditure. These studies testify the importance of emphasized characteristics in perceptions and expectations.

In this study when the customer stakeholder group is divided into gender and education sub-groups, it is asserted that the importance orders and degrees of these elements which shape reputation perceptions of these sub-groups may differ. Only the variables of gender and education were taken into account in this study, since gender (Harper and Schoeman, 2003: 517) and education may be two of 'the most salient and ubiquitous social categories'. Consistent with this idea, Bussey and Bandura (1999) regard 'gender' as a basic element in human differentiation. In the literature, although there are some studies which report indifferences of various issues between genders (e.g., Beutell and Brenner, 1986; Ragins, 1991), there are numerous studies as well which exhibit the impacts of gender and education level on values, perceptions, expectations, attitudes and behaviors of individuals. For instance, Izraeli (1987), in her study which examines the relationship between sex and the evaluation of direct and indirect influence tactics among Israeli managers, found that the interactions between genders of observers and genders of managers affect the perceptions regarding the effectiveness of the managers. Giacalone (1988) reported that acceptance of an account as an indicator of leadership depends on the previous history of misappropriation, genders of the observers and genders of the directors who employed the account. Similarly, the findings of a study which regarded gender as a potential variable affecting the perception and attitudes toward political behavior in organizations, showed that male employees are more tolerant of political behavior than women employees (Drory and Beaty, 1991: 250). In another study, Sweeney and McFarlin (1997: 92) indicated that 'the relationship between procedural justice and various organizational outcome variables were generally stronger for women than men'. Lee and Farh (1999)' findings, contrary to their hypothesis, showed that gender was a moderator variable between the perception of distributive justice and trust in a supervisor. By the same token, McColl-Kennedy, Daus and Sparks (2003) also revealed that there were significant differences between male and female respondents regarding their perceptions of how service recovery should be handled. In addition, Bakar, Akgün and Al Assaf (2008)'s findings showed that patients with a higher level of education had a high-expected service score difference. Finally, Gyekye and Salminen (2009) also revealed a positive association between educational attainment and perceptions of workplace safety. Gender and education also seem to be salient characteristics of the judgment process in the hotel industry. Min, Min and Emam (2002), for instance, indicated that male customers have a greater tendency to stay at a hotel for a business trip than their female counterparts, whereas female customers have a greater tendency to stay at a hotel for a pleasure trip than their male counterparts. The purpose is to indicate a process, in which, in addition to national culture and expectations of stakeholder groups, management efforts concerning organizational reputation should take the characteristics of sub-stakeholder groups into account. In other words, the purpose is to indicate that the construction of organizational reputation is not an effortless task.

METHOD

As previously stated, the purpose of the study was to determine whether there is a difference among sub-stakeholder groups in terms of reputation perceptions. The study was designed for hotels because former reputation studies (e.g., Carmeli and Tishler, 2005; Chu and Fang, 2006; Helm, 2005; Omar and Williams, 2006) generally seem to have focused on manufacturing organizations. Although there have been studies analyzing the reputation of organizations in the service sector (e.g., Baden-Fuller and Ang, 2001; Baden-Fuller, Ravazzolo and Schweizer, 2000; Bennett and Gabriel, 2001; Carmeli and Tishler, 2004), as far as we know, only a few studies have focused on the image (e.g., Kandampully and Suhartanto, 2000; Lewis 1984; Nguyen, 2006) and reputation of hotel enterprises. It was also observed that the studies which directly focused on organizational reputation concept and which were based on hotels were carried out by practitioners (e.g., Manson, 2006) rather than from an academic environment (e.g., Wirtz, Kum and Lee, 2000). Focusing on a new empirical field may facilitate a strengthening of the consciousness that reputation building factors and/or their importance levels and orders may vary depending on the industry, the stakeholder groups in these industries and subgroups under these stakeholder groups. However, in accordance with the proverb that there is no rose without thorns, a new empirical field may also have difficulties in addition to its advantages. For example, there are frequently no strong theoretical bases on which the researchers may easily construct the study. Thus, these projects often require hard work and patience.

In this study, to analyze the difference between the sub-stakeholder groups, customer stakeholder groups were selected because customers are the most strategic group in determining the organization reputation according to various studies (e.g., Kitchen and Laurence, 2003; Wiedmann and Buxell, 2005). In addition, as a stakeholder group outside the organization, the customers are important for distinguishing the concept of organization reputation from the concept of organization identity. According to Whetten and Mackey (2002), organization

identity is based on messages sent by the organization towards internal stakeholders. In this sense, carrying out the study on an out-of-organization group like customers is advantageous in stressing that the study did not focus on organizational identity. Also, as was mentioned earlier, since they seem to be the most prominent social categories (Harper and Schoeman, 2003), educational and in particular gender characteristics of the customer stakeholder group were taken into consideration in this study. Indeed, these categories seem to have a profound effect on the perceptions of individuals. However, since related studies have been mentioned in the theoretical part of this study, we will not deal with them again here.

To this end, the first phase of the study involved asking 76 hotel customers selected completely at random to rank the attributes that distinguish the five-star and resort hotel that they considered to have the highest reputation from other hotels. During the process of random sampling, respondents who participated in the current study from a university in Bursa/Turkey, were selected from the telephone directory of the university. Then, the researchers confirmed that all participants had at least two experiences in different hotels. These customers were first given some brief information about organizational reputation because, as Yang and Grunig (2005) mentioned before, one of the most difficult tasks in reputation research is to clarify the differences between reputation and similar concepts in the participants' minds. There are some studies within literature (Dowling, 1993) in which the concepts of reputation and image are treated as synonymous. However, this study, parallel to the Gotsi and Wilson (2001) perspective, which is called the '*differentiated school of thought*', differentiates between the concepts of organizational reputation and image by applying the premise that a number of experiences combine to create customers' perception of the hotel that they consider to have the highest reputation. For the concept of reputation, as opposed to the more instantaneous concept of image (Balmer, 1998; Gray and Balmer, 1998), is based on information gathering and takes time to establish (Fillis, 2003; Fombrun and Shanley, 1990; Herbig and Milewicz, 1997; Mahon, 2002; Şatır, 2006). Moreover, reputation is the product of a competitive, that is to say comparative, process. Thus consideration was also given to customers' experiences not only at the hotel that they considered to have the highest reputation but also at other hotels. At this point, the interviews were semi-structured and conducted by the researchers. Some of them were one-to-one and the others were group interviews (Fielding, 1993). The researchers also prepared probes and alternative questions for the main questions in the interview form to clarify the understanding of the participants (Boddy, 2005). The time for the one-to-one interviews ranged from 15 to 25 minutes. Some of the participants presented their attribute lists to the researchers at a later date. Finally, the most frequently mentioned criteria were included on a list of points raised by customers with reference to reputation, while those that received little emphasis (fewer than ten mentions) were eliminated from the list. This procedure was necessary because had certain criteria not been eliminated from the combined list containing the criteria elicited from 76 people, the amount of data would have been unwieldy from the point of view of analysis.

In the second part of the study, in interviews conducted with specialists who were included in the study with a convenience sampling procedure and systematically selected customers from the telephone directory of the university, main criteria or related sub-reputation criteria were determined from those in the list. In other words, the hierarchical relationships between the criteria were set. Main and subordinate criteria were determined through dual comparisons of customers and benefiting from participant managers' advices. The interviews were conducted with 15 customers and 4 hotel managers from 3 different hotels, 2 of whom were public relations specialists and 2 of whom were marketing managers. Interviews with hotel managers were conducted in their offices during work hours. The determination of the hierarchical relationships between the criteria with the support of the practitioners, hotel managers, might serve to increase the content validity of the study. In this part of the study, participants' ages ranged from 26 to 57. These interviews lasted for 1-1.5 hours and were carried out as semi-structured interview (Aaker, Kumar and Day, 1998).

In the third phase of the study, 336 people identified as hotel customers and who live in the city of Bursa, were asked to rank the basic and subordinate criteria that had been established in the previous phase. The sampling process was conducted using the convenience sampling of non-random sampling methods. This is because AHP requires face-to-face interviews to be conducted with customers. This procedure, in particular the explanation of the method, takes a considerable amount of time. It is thus quite difficult for researchers to find customers who are willing to participate in the study. However, it is noted in the calculation tables that when the size of population is more than 100,000, the size of the sample should be about 321 at $p < .05$ level (e.g., Bayram, 2004). Thus, it can be said that the sample size was adequate to a great extent. The interviewees' occupations varied: academic, accountant, baker, banker, civil servant, civil engineer, florist, grocer, mechanical engineer and so on. This variation in occupations of interviewees may also increase the external validity of the study. The ages of interviewees ranged between 20 and 78. The other information about the interviewees is given in Exhibit 1.

EXHIBIT 1: Demographic data of participants in the study

Education level: High school and lower education/ University and higher education	57	279
Gender: Male / Female	162	174

The interviews were structured and conducted by the researchers. Since senior management did not let the researchers perform interviews in their hotels for any part of the study, the interviews were largely conducted in the campus of a university and in the food court of a mall. While some of them were one-to-one, some of them were group interviews comprising 6-12 interviewees. To promote internal reliability, both of the researchers were present at many of the interviews. In the interviews conducted with customers, each basic criterion was subjected to a two-way comparison with the other basic criteria, while each subordinate criterion was subjected to a two-way comparison with other subordinate criteria in its group. For example, the criterion of 'internal appearance' was compared by customers with the only other criterion in its own group and level of 'external appearance'. Preferences were rated on a scale of 1-9 recommended by Saaty (1982) as shown in Exhibit 2. The interviews were non-taped and comparisons were typed quickly onto tables prepared before the interviews. The interviews generally lasted between 10 and 15 minutes. All interviews in the three phases were conducted between April 2006 and August 2008. All participants were Turkish and living in the city of Bursa, which attracts thousands of people from different regions of Turkey every year due to its extensive employment opportunities in automotive, textile and furniture industries.

In the current study, the Analytic Hierarchy Process (AHP) method was employed. AHP, which was selected to test the assertions of this study, was developed by Saaty (1980) to cover the provision and planning needs of the scant resources of the army. The purpose of AHP is to display the hierarchical relationship between the criteria that the evaluator uses when selecting the alternatives. AHP is a managerial decision-making tool, which has proven itself, but at the same time, can possibly have negative consequences if used improperly (Cheng, Li and Ho, 2002). In management literature, it is possible to see that many studies (e.g., Cheng, Zhang, Ye and Xia, 2006; Liang, 2003; Reisinger, Cravens and Tell 2003; Timur and Tüzüner, 2006) have used AHP.

For many reasons, AHP was used in this study in preference to other reputation measurement tools. The first, being that, since the main aim of the study was to determine priority relationships among reputation factors rather than to measure reputation level, AHP was more appropriate for the purpose. In addition, one of the benefits of AHP is that unlike other reputation measurement tools, AHP offers the possibility of making dual comparisons of reputation criteria and indicating hierarchical relationships between the criteria. For example, in this study, if interviewees rated reputation factors on a five point Likert scale, they had to attribute an equal score to two different factors which have very close but different importance levels and orders in their opinions. On the other hand, detailed dual comparisons in AHP may avoid this danger. Since this study entails intricate dual comparisons, AHP seems a proper device for the current study. Another advantage of the method is that the data is easily offered to related people (Deshmukh and Millet, 1999). Indeed, the researchers shared some findings with managers in the hospitality industry who were curious about the findings of the study, and observed that the managers easily grasped and interpreted the findings.

In addition, criticisms of other measurement tools were also influential in the selection of AHP as the method for the current study. For example, one of these tools, "Reputation Quotient Method (Fombrun *et al.*, 2000)" is criticized by some academics (e.g., Bromley, 2002) since the same measurement tool was applied to more than one stakeholder group with a different point of interest in the organization. Consistent with this idea, Fombrun and his colleagues attest that reputation-determining factors are common and can be used for all stakeholder groups. However, weights or importance levels of the factors vary depending on the groups (Helm, 2007 cited from Fombrun and Wiedmann, 2001). Fryxell and Wang (1994) also suggest that "Most Admired Companies" survey which is another important measurement tool used in many academic studies (e.g., Carter and Ruefli, 2006; Dollinger *et al.*, 1997; Hamori 2003; Roberts and Dowling, 2002; Staw and Epstein, 2000) and which is conducted by Fortune is financial-based and thus inadequate for measuring general company reputation. Mahon (2002), also claimed that this tool was based on financial success criteria and thus it would be more appropriate to rename this survey as "Most Financially Admired Companies". Due to the criticism brought to existing reputation measurement tools and the fact that these measurement tools fail to fully serve the objectives of the study, the researchers preferred to use the AHP method. On the other hand, it could be claimed that in the current study our measure just focuses on issues of service and seems to suffer from the same inadequacy. However, there is an important difference between our measure and other reputation measurement tools. These tools, discussed above, had been constructed before the interviewees completed them. Therefore, there was no alternative for interviewees belonging to different stakeholder groups and interested in different areas of

information relating to the organization except for evaluating financial performance of the organization as an indicator of reputation. In contrast, in our tool, the factors shaping organizational reputation were determined by the customers and this tool was then presented to the customers (same group) again. They then compared these factors in terms of their importance level and order. The same process may be conducted with different stakeholder groups to obtain knowledge about the other facets of organizational reputation. To sum up, it is an arduous but also relatively more dynamic and contingent reputation measurement tool.

Analysis was also carried out within stakeholder groups. There are many suggestions for the methods to be followed during this kind of calculation. In this study, while calculating the values of the groups, calculation over geometric average, which has been most suggested in literature (Kuruüzüm and Atsan, 2001) was preferred. The data were analyzed by the “Expert Choice (EC) 11” program. EC is a multifunction decision support software, based on AHP (Fernandez, 1996). It is applied in areas such as portfolio analysis, resource allocation, supplier selection, strategic planning, risk assessment, human resources management and organizational performance. There are many software programs on the market for activating AHP, but EC is the most popular one related to AHP. The reason for this is that EC was the first software to specialize in AHP (Davies, 2001). Finally, to assess whether the differences between the groups in terms of importance degree and order of criteria are statistically significant or not, some statistical analyses were performed on the main exhibits; Exhibit 3, 4, 7, 8, 9, 10, 13 and 14.

EXHIBIT 2: The Scale of Preferences in AHP

Intensity of Importance	Definition	Explanation
1	Equal importance	Two activities contribute equally to the objective
3	Weak importance of one over another	Experience and judgment slightly favor one activity over another
5	Essential or strong importance	Experience and judgment strongly favor one activity over another
7	Demonstrated importance	An activity strongly favored and its dominance is demonstrated in practice
9	Absolute importance	The evidence favoring one activity over another is of the highest possible order of affirmation
2,4,6,8	Intermediate values between two adjacent judgments	When compromise is needed
Reciprocals of above non-zero numbers	If activity <i>i</i> has one of the above non-zero numbers assigned to it when compared with activity <i>j</i> , then <i>j</i> has the reciprocal value when with <i>i</i>	Reasonable assumption

Saaty, T. (1982). *Decision making for leaders*. USA: Wadsworth inc., p.78.

RESULTS

In the first part of the study, while the customers indicated the factors determining the reputation of a hotel, they did not focus on factors which had been accepted as dimensions of organizational reputation in previous studies, such as financial performance, vision and leadership, work environment, emotional appeal (Alsop, 2004; Fombrun *et al.*, 2000), organizational culture (Cable and Graham, 2000), innovativeness level, leadership in the market (Saxton, 1998) and business partnerships which are characterized as “fitting” (Grupp and Gaines-Ross, 2002). It was observed that the customers first focused on the quality of the services (and products) provided by the organization (hotel) which has been acquiesced as a dimension of organizational reputation in many studies. This situation may lead the readers to wonder if this study analyzed quality level or organizational reputation. However, according to the authors, the fact that customers first focused on “the quality of the services” dimension of the hotels’ reputation was not a surprise, because it would not be logical for the customers to be primarily interested in financial performance of the hotel or the working environment of hotel personnel. As has been previously emphasized in literature (e.g., Dentchev and Heene, 2004; Fombrun and van Riel, 1997), every stakeholder group is interested in specific parts of the information concerning the reputation of an organization to a large extent and the findings of the study support this idea of authors.

With the findings from the second part of the research, at the end of the interviews, it was decided that hotel location, hotel appearance, hotel recognition, services provided by the hotel and the quality of the rooms were

the main (first) criteria that determine the reputation of the hotel. It was found that internal appearance and external appearance were second degree reputation criteria of hotel appearance main criteria. Also, front office, room service, food and drink, entertainment and other services (under “services provided by the hotel” criteria); and comfort and decoration (under “room feature” main criteria) were other second degree reputation criterion. In addition, It was found that politeness and service speed (under “front office services” second degree criteria), variety of food, taste and quality (under “food and drink services” second degree criterion), sport, transport and hotel security (under “other services” second degree criterion) were third degree reputation criteria. Many studies in customer satisfaction literature have referred to many factors which were regarded as second and third degree criteria for the customers who took part in the study (e.g., food quality issue in Saleh and Ryan, 1992). The relations between the criteria are illustrated in Figure 1.

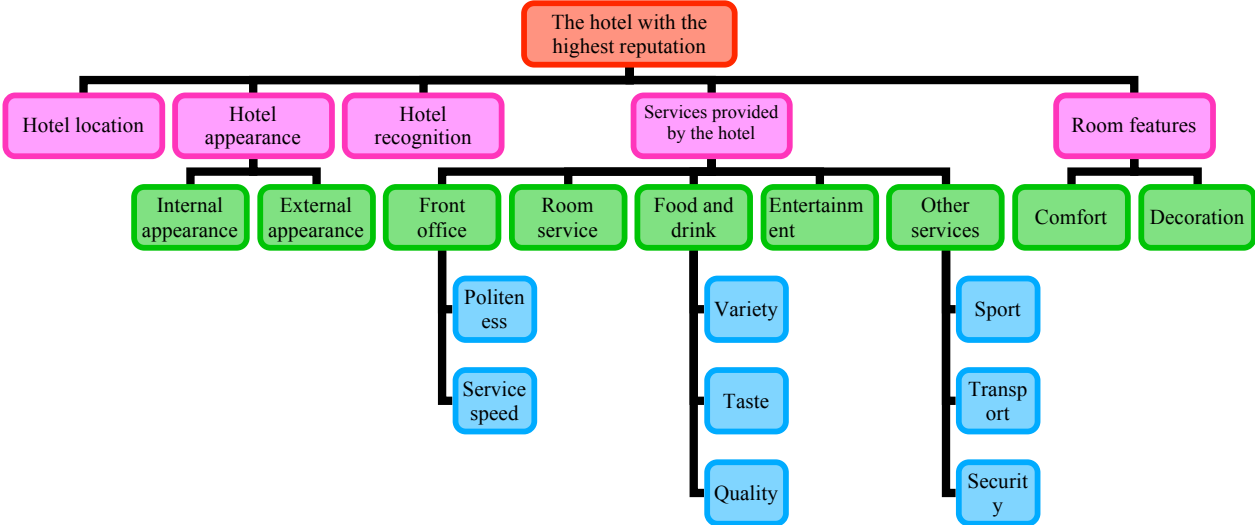


FIGURE 1: The primary, secondary and tertiary criteria influencing customers’ perceptions of hotel reputation.

The findings concerning the data obtained from the interviews conducted with 336 hotel customers who participated in the third part of the study are given in Figure 2, if education and gender factors are not considered. When Figure 2, which was produced after the assessment of 336 hotel customer responses, is examined, it is understood that the customers selected services provided by the hotel criteria (0.395) as the most important factors determining the hotel reputation. The closest to this value, the second most important reputation criterion (0.227) was “room features”. When second degree criteria were analyzed, it was found that “internal appearance” under hotel appearance was given double the importance of “external appearance”. When the sub-criteria under services provided by the hotel main criteria were analyzed, it was found that the services regarding food and drink (0.390) were by far the most important secondary sub-criteria. When third degree criteria were analyzed, it was found that, among food and drink services, “quality” and “taste”, and among other services, “security” were accepted as the most important criteria.

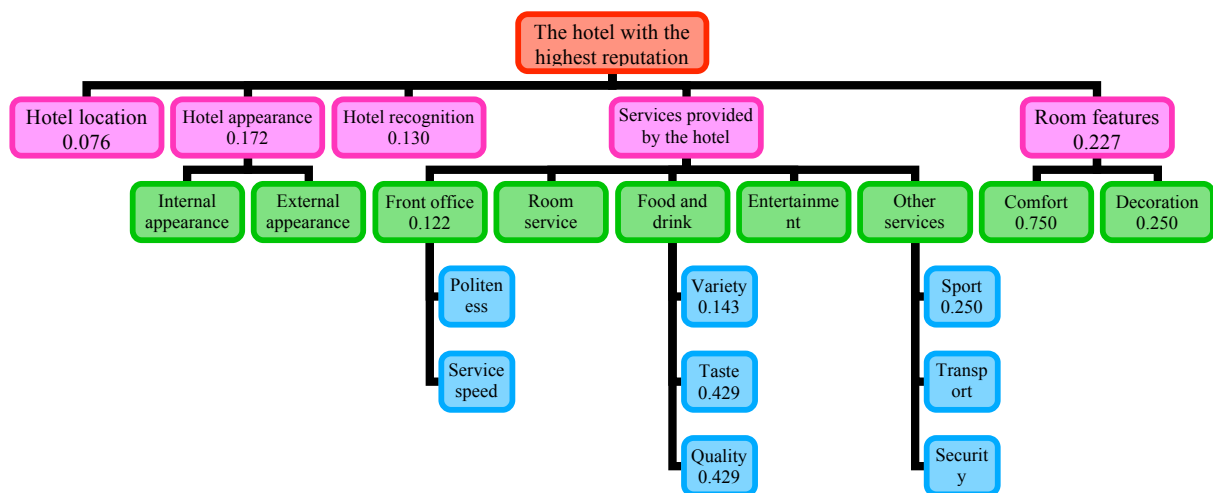


FIGURE 2: The importance rankings of primary, secondary and tertiary criteria influencing customers' perceptions of hotel reputation.

As the purpose of this study is to indicate whether there is a difference between the sub-stakeholder groups in terms of reputation criteria, the 336 people who participated in the study were grouped according to their gender and educational status. The level of importance values according to educational status are given in Exhibit 3. When Exhibit 3 is analyzed, it is found that there is a significant difference between the levels and orders of importance attributed to the main criteria by the customers who had received high school and lower education, or university and post-graduate education. On the other hand, consistency ratio concept has a key role in AHP. If the mathematical values of the responses given by the respondents are above 0.1, responses are considered as inconsistent. It is possible to make the responses more consistent by making the respondents review them. The consistency ratio of the responses of the group of "high school and lower education" given in Table 3 is lower than 0.1, which is the limit, which means an accept level as suggested by Saaty (1980). On the other hand, the value for the other group is higher than 0.1. Thus, the findings for this group in Exhibit 3 should be interpreted cautiously. The values in parentheses in the exhibit indicate the importance order of the criteria for the related group according to the other criteria. As can be seen in the exhibit, both groups attributed the highest importance to the services of the hotel in the determination of reputation. However, importance levels and orders of the other factors for the groups differentiated to a large extent. For example, for the first group, the second most important factor was room features, whereas for the second group it was "location". To confirm this claim, "Spearman Rank Order Correlation Analysis (SCA)" was performed and findings revealed that there is no relationship between the importance orders of the factors attached by groups. It connotes that these groups rank factors differently in terms of their importance. Then, the data was transformed into interval data and an independent sample *t*-test was performed. Findings showed that values the groups attribute to criteria are statistically different from each other except for "appearance". In short, these findings indicate that importance degrees and orders of main hotel reputation criteria vary drastically in terms of the educational level of the customers. The findings are given in Exhibit 3.

EXHIBIT 3: The importance ratings given to the basic criteria by education

		High school and lower education	University and higher education
Location	***	0.075 (5)	0.222 (2)
Appearance		0.103 (3)	0.142 (5)
Recognition	***	0.088 (4)	0.188 (4)
Services	***	0.431 (1)	0.256 (1)
Room features	***	0.304 (2)	0.192 (3)
Consistency ratio		0.03	0.21

When the criteria under the main criteria of services provided by the hotel, are analyzed, it is observed that there are differences in the attitudes of customers with high school and lower education, or with university and post-

graduate education. For example, while services related to food and drink had twice the importance of other services for high school and lower education graduate individuals, the values of these two criteria were relatively more close for those who had received university and higher education. Some additional statistical analyses were performed to test the findings. SCA results indicated that there is a significant and strong positive correlation (0.918) between these two groups' rankings concerning secondary criteria under services provided by the hotel. It means that there is no significant difference between the groups relating to their ordering of the criteria. On the other hand, after transformation of the data, the results of an independent sample *t*-test showed that there were statistically significant differences at $p < 0.01$ level between the values of the two groups attribute to criteria of entertainment and food-drink. The findings are given in Exhibit 4.

EXHIBIT 4: The importance ratings attached to secondary criteria subordinated to 'services provided by the hotel' by education

	<u>High school and lower education</u>	<u>University and higher education</u>
Front office	0.078 (4)	0.126 (3)
Room service	0.134 (3)	0.126 (3)
Entertainment ***	0.078 (4)	0.126 (3)
Food-drink ***	0.488 (1)	0.349 (1)
Other services	0.222 (2)	0.274 (2)
Consistency ratio	0.01	0.00

On the other hand, the analysis of hotel appearance criteria, which is one of the main reputation criteria revealed that high school and lower education graduates gave twice the importance to the internal appearance of the hotel than external appearance. However, for university and higher education graduates, this ratio is 3/1. The findings are presented in Exhibit 5.

EXHIBIT 5: The importance ratings attached to secondary criteria subordinated to 'hotel appearance' by education

	<u>High school and lower education</u>	<u>University and higher education</u>
Internal appearance	0.667 (1)	0.750 (1)
External appearance	0.333 (2)	0.250 (2)
Consistency ratio	0.00	0.00

When the criteria under room features, one of the main reputation criteria, were analyzed, it was found that both university and higher education graduates and high school and lower education graduates gave three times the importance to room comfort than room decoration. As the findings did not show any big differences, they are not given in a separate. It was found that, when other third degree criteria were analyzed, politeness of the personnel and service speed were equally important for university and higher education graduate customers. However, high school and lower education group attributes twice as much importance to speed as politeness. The findings are given in Exhibit 6.

EXHIBIT 6: The importance ratings attached to tertiary criteria subordinated to 'front office attributes' by education

	<u>High school and lower education</u>	<u>University and higher education</u>
Staff politeness	0.333 (2)	0.500 (1)
Staff service speed	0.667 (1)	0.500 (1)
Consistency ratio	0.00	0.00

When the responses of customers were analyzed in terms of third degree criteria (under the criteria of food and drink), it was found that there was a partial difference in the order of importance of these criteria attributed by groups who have different educational levels. In addition, there were differences between the degrees of

importance. The criteria regarding food quality took three times the importance of food variety and taste for the university and higher education graduate group. However, for the high school and lower education graduate group, the quality of food took approximately 1.75 times more importance than the taste of food. To attest the findings, some supplementary statistical analyses were performed. SCA results revealed that there isn't a significant and strong positive correlation between these two groups' rankings concerning tertiary criteria under food and drink. It connotes that there is a difference between the groups relating to their ordering of the criteria. In addition, after transformation of the data, the results of an independent sample *t*-test showed that there were statistically significant differences between the values of the two groups attribute to criteria of food variety. The findings are given in Exhibit 7.

EXHIBIT 7: The importance ratings attached to tertiary criteria subordinated to 'food and drink related services' by education

		<u>High school and lower education</u>	<u>University and higher education</u>
Food variety	***	0.122 (3)	0.143 (2)
Food taste		0.320 (2)	0.143 (2)
Food quality		0.558 (1)	0.429 (1)
Consistency ratio		0.00	0.00

It was determined that, when the reputation perceptions of high school and lower education and university and higher education graduate customer groups were analyzed in terms of third degree criteria (under other services criteria), level of importance concerning factors changed radically among the groups. Here, the most important criterion for both customer groups is security of the hotel. Both groups attach approximately twice as much importance to security services in the hotel as transport facilities. To test the findings, some additional statistical analyses were performed. SCA results suggested that there isn't a significant and strong positive correlation between these two groups' rankings concerning tertiary criteria under other services. It implies that there is a significant difference between the groups relating to their ordering of the criteria. In addition, after transformation of the data, the results of an independent sample *t*-test showed that there were statistically significant differences between the values of the two groups attribute to criteria of "sport activities" at $p < 0.01$ level and "transport facilities" at $p < 0.1$ level. These findings are given in Exhibit 8.

EXHIBIT 8: The importance ratings attached to tertiary criteria subordinated to 'other services' by education

		<u>High school and lower education</u>	<u>University and higher education</u>
Sports activities	***	0.143 (3)	0.250 (2)
Transport facilities	*	0.286 (2)	0.250 (2)
Hotel internal security services		0.571 (1)	0.500 (1)
Consistency ratio		0.00	0.00

The degree of importance attached to the main criteria according to gender are given in Exhibit 9. When Exhibit 9 is analyzed, it can be understood that there were partial differences between males and females in terms of the importance order of the main criteria and the importance level attached to these criteria. For example, males attributed the highest value to "service" criteria, whereas females attached the highest score to the criteria of "room features". In addition, the third and fourth most important factors were different for the two groups. The consistency ratios of the responses are under 0.1, the level Saaty (1980) suggested, as acceptable. The values in parentheses in the exhibit indicate the importance order of criterion among other criteria as mentioned earlier. To confirm these claims, SCA was performed and it revealed that there is no relationship between the importance order of the factors attached by the groups. It means that the ranking of the factors for these two groups were different. Then, an independent sample *t*-test was performed. Findings showed that the only difference in values groups attribute to criteria "recognition" are statistically significant. In short, these findings indicate that in terms of gender, the importance degrees varied partially and the order of the main hotel reputation criteria varied to a large extent. The findings are given in Exhibit 9.

EXHIBIT 9: The importance ratings given to the basic criteria by gender

	<u>Male</u>	<u>Female</u>
Location	0.096 (5)	0.042 (5)
Appearance	0.180 (3)	0.106 (4)
Recognition **	0.147 (4)	0.151 (3)
Services	0.369 (1)	0.260 (2)
Room features	0.209 (2)	0.442 (1)
Consistency ratio	0.02	0.03

When the criteria under the services provided by the hotel were analyzed, it was found that there were no big differences between female and male customers. Food and drink services were the most important criteria for females with the value of these criteria for females being greater than the score males attributed. To verify this claim, first, SCA was performed. The results revealed that there was a positive and strong correlation between the two groups (0.918) concerning the order of the criteria. It meant that there was no big difference between the groups in terms of order of the criteria. In addition, an independent sample *t*-test showed that there were no significant differences between the groups in terms of importance level they attributed to the criteria. These findings couch that there are no significant differences in order and importance level of these criteria in terms of gender. The findings are given in Exhibit 10.

EXHIBIT 10: The importance ratings attached to secondary criteria subordinated to ‘services provided by the hotel’ by gender

	<u>Male</u>	<u>Female</u>
Front office	0.124 (3)	0.093 (4)
Room service	0.124 (3)	0.093 (4)
Entertainment	0.124 (3)	0.119 (3)
Food-drink	0.395 (1)	0.423 (1)
Other services	0.234 (2)	0.272 (2)
Consistency ratio	0.00	0.09

When the criteria under hotel appearance main criteria were analyzed, it was found that males attached twice as much importance to internal appearance of the hotel as external appearance. In contrast, females attached more importance to the external appearance than internal appearance of the hotel. The findings are given in Exhibit 11.

EXHIBIT 11: The importance ratings attached to secondary criteria subordinated to ‘hotel appearance’ by gender

	<u>Male</u>	<u>Female</u>
Internal appearance	0.667 (1)	0.333 (2)
External appearance	0.333 (2)	0.667 (1)
Consistency ratio	0.00	0.00

Analysis of responses of males and females indicated that both genders attached twice as much importance to comfort of the room as decoration of the room. Since there is no difference between the values, these findings are not given in the exhibit. When other third degree criteria were analyzed, it was found that politeness of personnel and speed of service under the characteristics of front office personnel were equally important for male customers. Females attached four times more importance to service speed than politeness. This seemed to be another interesting finding. The findings are given in Exhibit 12.

EXHIBIT 12: The importance ratings attached to tertiary criteria subordinated to ‘front office attributes’ by gender

	<u>Male</u>	<u>Female</u>
Staff politeness	0.500 (1)	0.200 (2)
Staff service speed	0.500 (1)	0.800 (1)
Consistency ratio	0.00	0.00

Analysis of responses of males and females in terms of third degree criteria (under services related to food and drink) indicated that there was no significant difference in the importance level attributed to these criteria between the genders. Males attributed equal scores to food quality and taste. On the other hand, females allocated the highest score to food quality. However, since the consistency ratio is greater than 0.1, this finding should be interpreted with caution. SCA was performed to confirm this claim and it suggested that there is no relationship between the importance order of the factors attached by the groups. It connotes that the ranking of the factors for these two groups were rather different. In addition, an independent sample *t*-test showed that there were no significant differences between the groups in terms of importance level they attributed to the criteria. It means that there is no statistically significant difference between genders attached to food and drink related services. The findings are given in Exhibit 13.

EXHIBIT 13: The importance ratings attached to tertiary criteria subordinated to ‘food and drink related services’ by gender

	<u>Male</u>	<u>Female</u>
Food variety	0.143 (2)	0.169 (3)
Food taste	0.429 (1)	0.387 (2)
Food quality	0.429 (1)	0.443 (1)
Consistency ratio	0.00	0.69

When the hotel reputation perceptions of males and females were analyzed in terms of third degree criteria (under other services), it was found that both importance order and level attached to criteria seemed to change. Sport activities are the most important criterion also in this criteria group. However, the place of second and third criteria was different for genders. For females, transport services are at third level. Males attributed the lowest importance to security. First, SCA was performed to attest this claim and it indicated that there is no relationship between the importance order of the factors attached by the groups. It denotes that the ranking of the factors for these two groups were different. Also, an independent sample *t*-test revealed that there were no significant differences between the groups in terms of importance level they attributed to the criteria. The findings are given in exhibit 14.

EXHIBIT 14: The importance ratings attached to tertiary criteria subordinated to ‘other services’ by gender

	<u>Male</u>	<u>Female</u>
Sports activities	0.400 (1)	0.610 (1)
Transport facilities	0.400 (1)	0.166 (3)
Hotel internal security services	0.200 (2)	0.225 (2)
Consistency ratio	0.00	0.09

DISCUSSION

As previously mentioned, the motivation for this study was to investigate whether gender and educational status variables, ‘the most salient and ubiquitous social categories’ (Harper and Schoeman, 2003), influenced

reputation perceptions. The emergence of a difference in terms of sub-stakeholder groups under a customer stakeholder group may make reputation a more difficult to manage concept. While delivering reputation messages to customers as it so wishes, the organization will also have to take into account the characteristics of sub-groups. This kind of a conclusion will make reputation formation and/or any strengthening activity more time-consuming and expensive for organizations. Also, as mentioned earlier, this situation may affect the balance of power between units and between principals and agents in organizations. Consistent with this idea, there are some studies in the literature which adduce that micro, meso and macro developments may bring about some changes in power relations of organizational units and their executives. For example, according to Fligstein and Freeland (1995), after World War II, the financial executives have strengthened their positions in United States corporate organization context with the assistance of some macro developments, especially through diversification strategies which have become more important. In a similar vein, as put forth by Özen (2002), professional managers, initiators of the diffusion of TQM in Turkey, elaborately have re-constructed the content of TQM and their roles as “quality heroes” and utilized TQM to solidify their positions against principals.

In the first part of the study, the customers specified 22 reputation determining factors for hotels as hotel location, appearance, recognition, services and quality of rooms. This finding was consistent with the researchers’ expectations to a large extent. The findings of the second part of the research revealed that hotel location, hotel appearance, hotel recognition, services provided by the hotel and the quality of the rooms were the main (first) criteria that determine the reputation of the hotel. These findings are consistent with some studies in literature. The emergence of services provided by the hotel and as one of the main reputation criteria is in line with the findings of Heung (2000), who found that service quality was one of the factors determining customer satisfaction. Hotel location as one of the main criteria determining reputation in the minds of customers, was consistent with the findings of Lewis (1985) who pointed out that customers regard hotel location as one of the most important factors when choosing a hotel. Similarly, the finding that hotel appearance was very important for the customers was in line with the findings of Saleh and Ryan (1992), who suggested that the aesthetics of the hotel in an architectural sense positively influenced customer satisfaction. Second-degree criteria for the interviewees were, internal appearance, external appearance, front office, room service, food and drink, entertainment, other services, room comfort and decoration and third-degree were politeness and speed of service of personnel, variety, taste and quality of food and drink and other services of the hotel such as sport, transportation and security. According to Choi and Rue (2001: 279), ‘reviews of literature for the hospitality industry suggest that hotel attributes such as cleanliness, location, room rate, security, service quality, and the reputation of the hotel or chain are regarded as important by travelers’. Our first findings, thus, appear to be consistent with the literature.

The findings concerning the third part of the research show that “services” is the most important main level reputation factor for interviewees regardless of their gender and education level. The fact that services provided by the hotel came out among the first degree factors determining reputation is similar with the findings of Wilkins, Merrilees and Herrington (2006) indicating that service quality is a dimension of a hotel’s quality. Also, room features -comfort and decoration- took the second highest value (0.227) among five main criteria. This finding is, to a large extent, consistent with Barsky and Nash (2002)’s study, which suggested that customers’ feeling of comfort is the most important emotion which fosters their loyalty to a hotel. Consistent with the findings of a study (Wei, Ruys and Muller, 1999) based on customers over the age of 60, suggesting that hotel location ranked five in the respective importance level, hotel location had the weakest importance level (0.076) among the five main factors in this study. On the other hand, there are also some studies in the related literature where customers attach high values to hotel location (e.g., Rivers, Toh and Alaoui, 1991; Tsang and Qu, 2000). Under “service” main criteria, the most important secondary criteria was “food and drink”. These findings are consistent with the findings of the study of Akbaba (2006). Since little research has been conducted to investigate the role of food service in tourist satisfaction (Nield, Kozak and LeGrys, 2000), the findings of the current study at this point appear to contribute to the literature. Also, in contrast to Tsang and Qu (2000)’s study in which the expectations of customers regarding hotel comfort (3.79) and decoration (3.70) were determined approximately equally, in this study it was found that the customers attributed three times more importance to “room comfort” criteria, under second degree criteria. Since Turkish people often have epicurean characteristics rather than exhibitionist, it was not a surprising result for the researchers. Under “other services” criteria, the most important criteria was security. This was consistent with the findings of Webster and Hung (1994) which indicated that security was one of eight factors determining service quality of hotels. In a similar vein, Gill and his friends (2003) suggested that the responsibilities of security managers in hotels were enhanced in England. This situation may stem from security demands of customers. Finally and similarly, Akbaba (2006) suggested that customers accepted the provision of a secure environment by the hotel as the second most important service quality criteria.

The findings of the third part of the study also indicate that the importance order and level attached to these criteria, in particular the first order criteria, which determine the hotel reputation changed in terms of gender and especially educational level variables. For example, “services”, one of the main criteria, is the most important reputation factor for male customers, whereas for females it was ‘room features’. There was only a statistically significant difference in the criteria of “recognition” between males and females. At the secondary and tertiary level criteria, many differences can be observed between genders. For example, at the secondary level criteria, females seem to be much more sensitive to “food and drink” criteria than males. This finding is consistent with the findings of Heung and Lam (2003) that 60% of customers who complain about restaurant services are female. This situation is possibly the result of the fact that females are generally responsible for cooking at home. Again, at the secondary level criteria, internal appearance was twice as important as external appearance for males. On the other hand, females attributed more importance to external appearance. Finally, the finding that hotel security service was the second most important criterion under “other services” secondary criteria for female customers was consistent with the findings of Howell, Morero and Demicco (1993). However, in terms of gender, statistically significant differences in importance levels of criteria were not found after supplementary statistical analysis which was performed to verify primary research findings. To sum up, although there were no significant differences between importance levels males and females attached to criteria, statistically significant differences were found between importance orders of all criteria in terms of gender except for the criteria under services provided by hotel.

Although at the basic criteria level, “services” is the common most important factor for both the “high school and lower education” and “university and higher education” groups, there are many differences as well. The second highest important factor is ‘room features’ for the first group and location for the second group. This result may stem from the fact that those in the university and higher education group often have better economic conditions than those in the high school and lower education group. Therefore, they may have more comfortable and better decorated homes. As a result, they attribute more importance to a factor they do not possess in their routine lives such as location. Finally, the statistical analysis, performed to prove the findings, indicated that there were significant differences between the importance level and order of the values these groups attributed to the basic criteria except for appearance. Statistical analysis also revealed that there were significant differences in the criteria of “entertainment” and “food and drink” between groups at the secondary criteria level. In addition, at the tertiary criteria level, some statistically significant differences were found between the values the groups attached to food variety, sport activities and transport facilities. In addition, SCA showed that importance orders of reputation criteria were significantly different in three of four exhibits in terms of education level. These differences indicate that, while delivering messages about themselves, the organizations should take into account both the expectations of the stakeholder group, and the national culture and demographic characteristics of the individuals in that group, especially their level of education. Once more, this situation underlines that reputation management is an extremely complicated task for organizations. Difficulties in the management of this concept have led to reputation being considered as one of the most important ‘*intangible resources*’ of an organization (Barney, 1991; Carmeli and Tishler, 2005; Caruana, 1997; Deephouse, 2000; Dollinger *et al.*, 1997; Goldberg *et al.*, 2003; Hall, 1992, 1993; Mahon, 2002; Rao, 1994).

In the current study, there were also findings not consistent with the researchers’ expectations. For example, in the first part of the study, the researchers anticipated that environmental sensitivity of the hotel would be an important factor which determines the reputation of the hotel for customers. This expectation is consistent with the findings of some studies (e.g., Argenti and Druckenmiller, 2004; Beren and van Riel, 2004; Bohdanowicz, 2006; Fombrun and Shanley, 1990; Fombrun *et al.*, 2000; Turban and Greening, 1996) which claimed that the social responsibility of an organization determined or strengthened the reputation of that organization in the minds of various stakeholder groups. However, only two of the 76 respondents participating in the first part of the study defined environmental sensitivity of a hotel as a factor influencing their perceptions of hotel reputation. For this reason, the concepts of social responsibility, environmental friendliness or environmental sensitivity were not included in the study as reputation factors. Carter and Ruefli (2006) note that only a few organizations manage to keep their reputation over a period of time. This may be caused by organizations failing in areas which had previously enhanced their reputation or by changes in the factors determining reputation in the minds of related groups. Bearing the second assumption in mind, if it is accepted that the criteria that determine reputation evolve over time (Beren and van Riel, 2004), it is possible that social responsibility, today not accepted as an important reputation criteria by Turkish hotel customers, could have a higher importance level in the future. Again regardless of gender and education level, the politeness and speed of service of front office personnel was equally important for the customers. However, in a study by Tsang and Qu (2000), the politeness of the hotel personnel was a more important factor than speed. The fact that equal importance was attributed to the politeness of personnel and the speed of service may be due to the high number of young people who took part in the study. It has often been observed that young people are impatient and the expectations of this group

focus more on service speed. Also, this finding may be a reflection of Turkish national culture characteristics as well. The third unexpected finding was that females attribute twice as much importance to external appearance as internal appearance of the hotel. The researchers expected females to attribute more importance to internal appearance since they spend more time in the home. However, a first impression may be more important for them. The fourth surprising finding was that females attach four times more importance to speed of service than politeness. It was expected that females would attribute more importance to politeness. Possible reasons for this finding are that females might employ an “impression management” tactic and attribute more importance to speed in this study than they would in their real lives to break their images as “laggards” in male eyes.

Originality and Limitations

This study differs from other studies in several points. Firstly, perhaps the most important difference of the study is that the analysis level of the study is sub-stakeholder groups. A limited number of studies in reputation literature have emphasized the importance of sub-stakeholder analysis level (e.g., Bennett and Gabriel, 2003; Ou, 2007). However, none of them have employed sub-stakeholder group analysis level to discuss the extent of manageability of organizational reputation. Secondly, the study deals with the concept of reputation with an eclectic approach, through an environmental determinism-voluntarism discussion. Despite not being explicitly expressed, in earlier studies it seems that a voluntaristic understanding has been overwhelmingly adopted for the concept of reputation. In particular, the frequent and unconscious usage of reputation concept with ‘management’ seems to refer to this belief. The third difference is the use of AHP as the method of analysis. As previously mentioned, AHP has been widely used in many studies. However, to the best of our knowledge, this is the first time in reputation literature. As we stressed earlier, AHP was selected as other methods failed to meet the needs of this study and had come under criticism in reputation literature. In addition, it is known that hotel enterprises are not widely favoured organizations in reputation literature so this study is a rare example using hotels in academic reputation literature. Lastly, as far as we know, the current research is one of the few reputation studies conducted in developing countries (e.g., Dortok, 2006; Şatır, 2006; Wang and Wang, 2007). These studies may enable some comparisons concerning reputation perceptions of various stakeholder groups in developed and developing countries.

However, this paper undoubtedly has some limitations as well. The first limitation was that hotel reputation criteria determined by the customers in the first part of the study in AHP were subjected to dual comparison by the customers under the guidance of the researchers. Explaining the logic of these dual comparisons to customers and data collection was time-consuming for the researchers. This is considered to be one of the main disadvantages of this method (Millet, 1998). Another limitation of the current study was that, as we mentioned earlier, the consistency of the responses of the respondents in AHP can be increased by reviewing their responses. However, following the first analysis of data by the researchers, finding the same customers who took part in the survey and making them renew their responses was not always possible. The third limitation of the study emanated from the nine point scale of AHP. According to Babakuş and Mangold (1992), five point scales can decrease the frustration levels of participants in a research study. The nine point scale of AHP, thus, might engender certain amount of frustration among participants of the study. The fourth limitation of the study is that the relatively small size of the sample of high school and lower education group ‘may affect the statistical significance of the findings for this grouping’ (Nield *et al.*, 2000: 383). The fifth one stems from the similarity of the different concepts of reputation, credibility (Herbig and Milewicz, 1995), customer relationship management (Nakra, 2000), identity, image, prestige (Smidts, Pruyn and van Riel, 2001), respectability (Dhir and Vinen, 2005) and standing (Shenkar and Yuchtman-Yaar, 1997). Although the researchers attempted during both the structured and unstructured interviews to explain and differentiate as much as possible “reputation” from other similar concepts, some of the customers might have explained their ideas with regard to concepts other than reputation. Finally, the hospitality industry is a rather new and not well-established field for reputation studies. Therefore, this study required great effort to construct a theoretical base and work with a large sample.

Future Research Directions

This study discusses the importance of the two factors on which a sub-stakeholder group is constructed within the process of reputation determination. On the other hand, these factors are not limited to gender and educational status. Further research can investigate the impact of other sub-stakeholder level factors on reputation determination processes such as age, marital status, income level, religion, ethnicity, occupation and political view. In addition, the findings of the current study could be retested with a larger sample and in different cultures. Also, as another research field, an experimental environment could be designed and in two different contexts, when senior management perceive reputation as highly unmanageable or manageable, with the investigation of public relations or reputation managers’ wages and degree of legitimacy in the minds of senior management. Also, when public relations managers perceive reputation as a highly unmanageable

element, the strategies and tactics employed by these managers to legitimize their positions in their organizations, can be researched. In addition, consistent with Knights and Morgan (1991: 251)'s critical idea that strategy 'is a mechanism of power that transforms individuals into particular kinds of subjects who secure a sense of well-being through participation in strategic practices', Shrivastava (1986) also claims that strategic management is an ideological tool and serves primarily the knowledge requirements of top management rather than being a rational or neutral technique. In a similar vein, whether organizational reputation is employed as an ideological management issue, masking reality and serving the interests of some dominant groups and fields such as public relations (Campbell, Herman and Noble, 2006), in some countries or whether it is admitted and used as a highly rational tool to increase the performance of organizations and to facilitate the construction of social order consistent with claims of orthodox management and organization literature can be investigated.

Finally, according to Weber, one of the hallmarks of contemporary industrial society is the hegemony of 'instrumental rationality' which denotes the exemption of science from societal and moral obligations (Yildirim, 2006). However, the study seems to have some benefits for different parts of society beyond its efforts to contribute to science. For example, for practitioners, the first benefit is that in different industries it may create an awareness of the difficulty and importance of reputation building. There is a risk that, influenced by the atmosphere created in literature, hotel managers and other managers can underestimate reputation management activities and avoid taking necessary measures. Secondly, the number of scientific studies in literature focusing on measurement of hotel reputation is not high. This study provides hotel managers with some clues about which criteria to focus on in particular to gain a high reputation level in the view of customers. As many hotels do not have infinite time and financial resources to provide all the criteria which may influence their reputation, a study of this kind is important. A study conducted in England revealed that 15% of communication managers in organizations seriously complained about the inadequacy of resources allotted to them (Dolphin, 2003). In addition, hotel managers who are better-informed about the sensitivity of their customers can satisfy them more easily.

CONCLUSION

Reputation is a concept which has gradually gained importance for organizations. In earlier studies, due to different expectations of national culture and stakeholder groups, it was stressed that reputation building was a rather difficult process for organizations. In this study, it was suggested that differences in terms of reputation perceptions may emerge in both stakeholder groups and sub-stakeholder groups. It was determined that between gender and in particular educational status sub-stakeholder groups of the customer stakeholder group, there were differences in the orders and importance levels of reputation determining factors. The findings of this study indicate that reputation building is indeed a much more sophisticated task than has been stressed in related literature to date. These findings also support the eclectic idea that the management of reputation frequently can be controlled partially by the organizations themselves.

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MEASURING CUSTOMER SATISFACTION IN TURK TELEKOM COMPANY USING STRUCTURAL EQUATION MODELING TECHNIQUE

**Selim Zaim and Ali Turkyilmaz,
Fatih University, Turkey**

**Mehves Tarim
Marmara University, Turkey**

**Bilal Ucar,
Turk Telekom, Turkey**

**Oguz Akkas
Fatih University, Turkey**

ABSTRACT

Customer satisfaction and loyalty are key issues for organizations in today's competitive market place. Customer satisfaction index models are developed and put into practice as models to measure customer satisfaction at institutional, industrial and national basis. In this project, European Customer Satisfaction Model was taken as the reference and Turk Telekom Customer Satisfaction Model was acquired.

INTRODUCTION

The concept of customer satisfaction has attracted much attention in recent years. To improve product and service quality, and maintain customer loyalty within a highly competitive marketplace it became a central concern for companies and organizations. A key motivation for the growing emphasis on customer satisfaction is that high customer satisfaction lead to a stronger competitive position resulting in higher market share and profit (Fornell, 1992). Customer satisfaction is also generally assumed to be a significant determinant of repeat sales, positive word-of-mouth, and customer loyalty (CL). Satisfied customers return and buy more, and they tell other people about their experiences (Fornell, et al., 1996).

Until recently in most countries, telecommunications service providers were state owned, state operated, and often monopolistic. With the privatization of British Telecom and the introduction of competition in the U.S. long-distance telephone services, the late 1980s and 1990s witnessed the most dramatic policy changes the telecommunications world had ever seen. The monopoly-based system of service provision, which dominated the world's telecommunications markets for over three-quarters of the last century, gave way to more competitive supply in many markets. (Li and Xu, 2004)

There have been two major growth areas in telecommunications over the past two years in the OECD – mobile and broadband. This growth has resulted in the number of mobile and broadband subscribers as percentage of all telecommunications subscriptions or “access paths” accounting for 74% of all communications path in 2007. Mobile alone accounts for 61% while standard phone lines only account for 26%. This is a dramatic shift from the year 2000 when there were more fixed line access paths (51%) than mobile. The number of fixed analogue lines across the OECD fell by 37 million between 2005 and 2007 but the growth of broadband lines and mobile subscribers (77 million and 201 million respectively) over the same period more than compensated for the fixed line losses. The penetration rate for fixed telephone lines in 2007 was 41 subscribers per 100 inhabitants, which was less than the penetration rate ten years earlier. Overall, the penetration rate rose from 43% in 1996 to a maximum of 47% in 2000, only to decline again to 41% in 2007. (OECD, 2009)

There has been an impressive shift away from dial-up fixed internet connections to broadband. In 2005, dial-up connections still accounted for 40% of fixed internet connections. Just two years later that percentage fell to

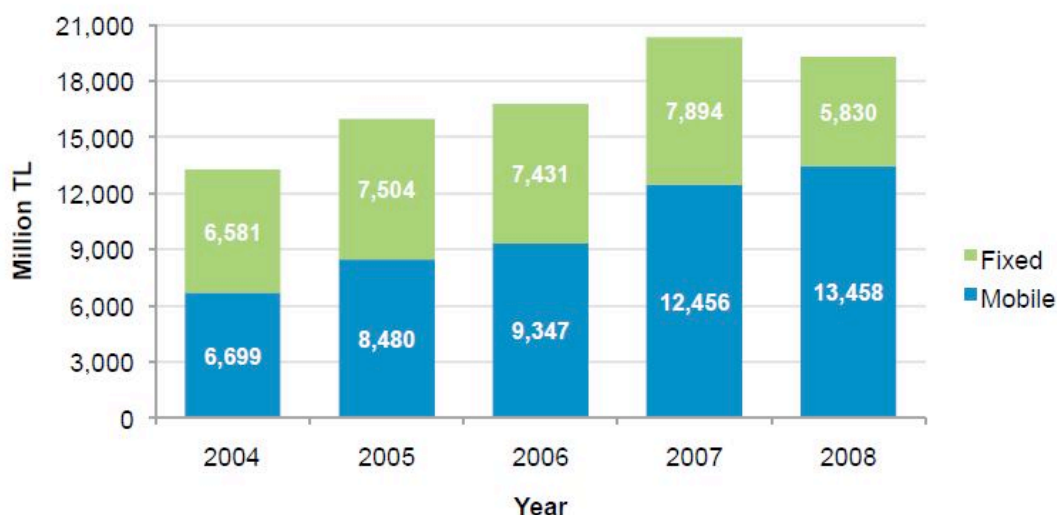
10%. Broadband now is the dominant fixed access method in all OECD countries. Broadband subscriptions reached 251 million in June 2008, growing an average of 20% between 2005 and 2007 compounded annually. The number of broadband subscriptions corresponds to 21.2 subscribers per 100 inhabitants in the OECD. (OECD, 2009)

Turkish electronic communications market has developed rapidly since liberalization on 1st January 2004. The number of players in the market tended to increase continuously after liberalization. By the end of 2008 there exist 256 operators in the electronic communications market (ICTA, 2010).

Turk Telekom group (the leader of the telecommunication sector in Turkey) provides integrated telecommunication services from PSTN (fixed line telephone service), GSM (Global System for Mobile Communications) to broadband internet. Turk Telekom group companies have 16.8 millions of PSTN customers, 6 millions of broadband internet customers and 12.1 million GSM customers as of September 30, 2009. The privatization of Turk Telekom was closed on November 2005 (Turk Telekom, 2010).

Fixed (incumbent and long distance telephony service providers) and mobile operators' total sales revenues which constitute the most important part in total electronic communications sector revenues are shown in the Figure 1. From the beginning of liberalization process in 2004 to 2007, total revenues continuously increased. However in 2008 sales revenues decreased by 5% to 19.3 billion TL which was 20.3 billion TL in 2007. After a continuous increase, in 2008, the share of mobile operators in total revenues became 70% and fixed operators' share decreased to 30% (ICTA, 2010).

Table 1. Fixed and mobile operators' total sales revenues



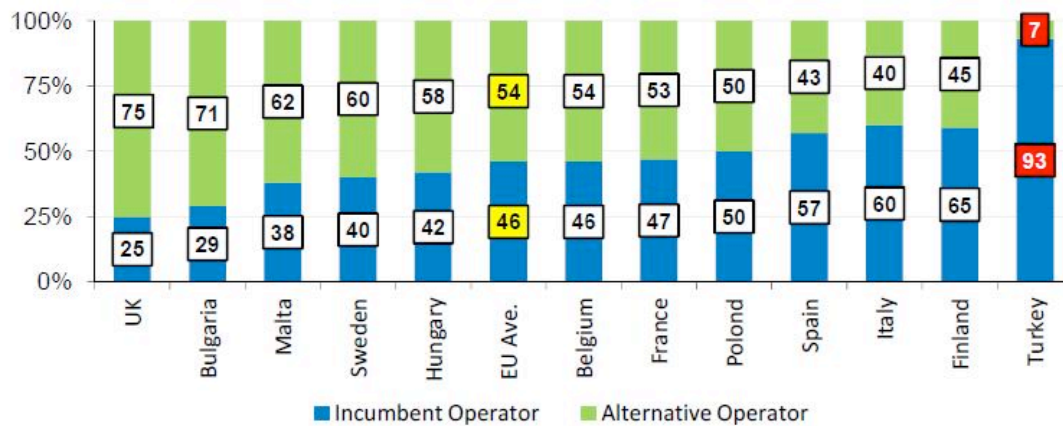
Fixed line penetration rate, which has reached its peak in 2001 (28.5%) is in a slightly decreasing trend especially starting from 2004 due to mobile telephony usage. The number of fixed subscribers decreased to 17.5 million in 2008 corresponding to a penetration rate of 24.5%. (ICTA, 2010)

Regardless of technology and communication infrastructures they use, Long Distance Telephony Services (LDTS) operators can provide intercity and/or international telephony services to the end users as alternatives to Turk Telekom. LDTS operators reached a share of 13% in 2008. (ICTA, 2010)

Competition in the broadband internet services market is developing. By the end of 2008 number of internet subscribers in Turkey reached up to almost 6 million. After the opening up of ADSL and G.SHDSL ports of incumbent operator (Turk Telekom) to the use of ISPs, resale of broadband access services commenced. On the other hand, ISPs started to access to Turk Telekom's infrastructure for the provision of broadband services via bit stream access. (ICTA, 2010)

Market shares of incumbent operators in retail broadband services market in EU countries are given in Figure 2. Incumbent operators' average share in broadband market is 46% in EU countries, whereas Turk Telekom has 93% market share in Turkey (ICTA, 2010).

Table 2. Shares of Incumbents and Alternative Operators in Retail Broadband Services in Turkey and Some EU countries, (%)



The purpose of this paper is to provide information about the customer satisfaction indices (CSIs) and show the results of a CSI study carried out in Turkish telecommunication sector. The rest of this paper is structured as follows: the second section briefly presents an overview of the CSIs and their developments in different countries. In the third section, the ECSI model implemented in Turkish telecommunication sector is described. The methodology and data analysis are discussed in the fourth section, followed by the analysis of the main results. Discussions and concluding remarks are provided at the end.

LITERATURE REVIEW ABOUT CUSTOMER SATISFACTION INDEX (CSI) MODEL

The original interest in customer satisfaction research was on customer's experience with a product episode or service encounter (Anderson et al., 1994). More recent studies have focused on cumulative satisfaction. Cumulative satisfaction defines satisfaction as customer's overall experience to date with a product or service provider. This approach to satisfaction provides a more direct and comprehensive measure of a customer's consumption utility, subsequent behaviors and economic performance (Fornell et al., 1996). The ECSIs were built upon a cumulative view of satisfaction.

The ECSI model is a structural model based on the assumptions that customer satisfaction is caused by some factors such as perceived quality (PQ), perceived value (PV), expectations of customers, and image of a firm. These factors are the antecedents of overall customer satisfaction. The model also estimates the results when a customer is satisfied or not. These results of customer satisfaction are consequences factors such as complaints or loyalty of customer (Johnson et al., 2001). Each factor in the ECSI model is a latent construct which is operationalized by multiple indicators (Fornell, 1992; Chien et al., 2002).

Swedish customer satisfaction barometer (SCSB), reported in 1989, was the first national CSI (Fornell, 1992). It was applied to 130 companies from 32 Swedish industries. In 1992, the German customer barometer was introduced. The study is conducted for 52 industry sectors in Germany (Meyer and Dornach, 1996). The American customer satisfaction index (ACSI) was developed in 1993 by Claes Fornell, Founder of SCSB. The ACSI survey is conducted for seven main economic sectors, 35 industries, and more than 200 companies with revenues totaling nearly 40 percent of the US GNP (Fornell et al., 1996). The European customer satisfaction index (ECSI), developed by European organization for quality and European foundation for quality management, was first introduced in 1999 across 11 European countries (Eklöf and Westlund, 2002). Other efforts for

establishing national CSIs can be seen in Denmark, Austria, France, Netherlands, Switzerland, Taiwan, New Zealand, South Korea, Malaysia, Hong Kong and Russia (Grigoroudis and Siskos, 2003).

The original SCSB model contains two primary antecedents of satisfaction: perceived performance and customer expectations. These both antecedents are expected to have a positive effect on satisfaction. The consequences of satisfaction in the SCSB model are derived from Hirschman's (1970) exit-voice theory which describes the results of dissatisfaction. The customer either exits (stops buying from the firm), or voices its complaint to the firm in an effort to receive restitution. It is expected that an increase in satisfaction should decrease complaints and increase CL (Fornell, 1992; Anderson et al., 1994).

The ACSI model builds upon the original SCSB model specifications adapted in the distinct characteristics of the US economy. The main differences between the original SCSB model and the ACSI model are the addition of a PQ component, as distinct from PV, and the addition of measures for customer expectations. The ACSI model predicts that as both PV and PQ increase, customer satisfaction should also increase (Anderson et al., 1994). For the consequences, as in the SCSB, it is expected that when customer satisfaction increase then loyalty increase and complaints decrease (Fornell et al., 1996).

The ECSI, a modified adaptation of the ACSI model, considers the European economy as a whole, and thus, CSI scores of the countries can be compared with each other and with the European average (Eklöf and Westlund, 2002). In the ECSI model, customer expectations, PQ, PV, customer satisfaction, and CL constructs are modeled the same as in the ACSI. There are two fundamental differences between the ACSI and ECSI models. First, the ECSI model does not include the complaint behavior construct as a consequence of satisfaction. Second, the ECSI model incorporates company image as a latent variable in the model. In the ECSI model, company image is expected to have a direct effect on customer expectations, satisfaction and loyalty (Grigoroudis and Siskos, 2003).

The first studies on CSI model in Turkey were the research studies done by Turkyilmaz and Ozkan (2004) and Aydin and Ozer (2005). Aydin and Ozer (2005) developed and tested a new model for Turkish global system for mobile (GSM) users. The structural model they used includes some new constructs, such as switching cost, trust, and complaint handling. They collected the data from 1,662 GSM users in four Turkish cities using a face-to-face survey. In their study, the model is estimated using maximum likelihood (ML)-based covariance structure analysis method namely LISREL.

Then the first national model, Turkish customer satisfaction index (TCSI), was reported as a pilot study in the fourth quarter of 2005 by Turkish Quality Association (Kal-Der) and KA Research Limited. Since, the measurement model of the TCSI is same as the ACSI model, it includes customer expectations, PQ, PV, customer satisfaction, CL and customer complaints constructs. In 2006, the TCSI was implemented for 100 companies from 25 sectors (TMME, 2006).

THE CSI MODEL AND RESEARCH HYPOTHESES

The Customer Satisfaction Index (CSI) is an economic indicator that measures customer satisfaction. A model has been derived specifically for the CSI. In this model, six interrelated latent variables are introduced. It is based on well-established theories and approaches in customer behavior and it is to be applicable for a number of different industries.

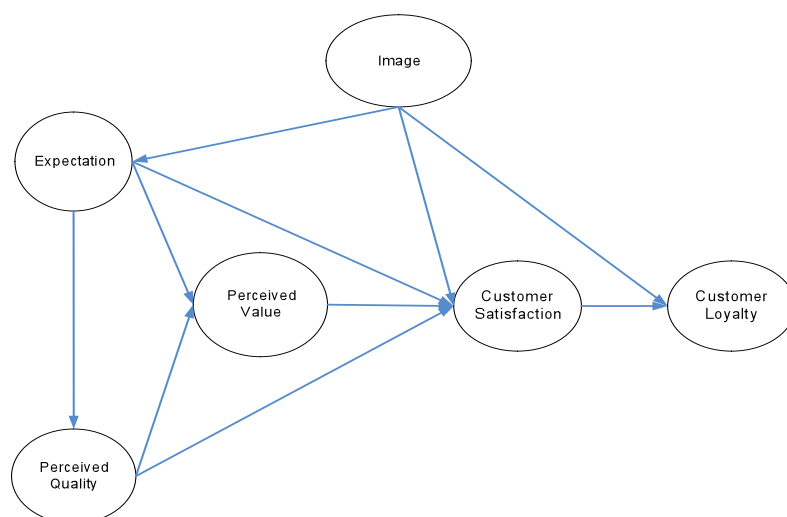
The CSI model is described in Figure 3. A set of manifest variables is associated with each of the latent variables. This structure is called the CSI model.

The image construct evaluates the underlying image of the company. Image refers to the brand name and the kind of associations customers get from the product/company (Andreassen and Lindestad, 1998). Martensen et al. (2000) indicates that image is an important component of the customer satisfaction model. For the companies, image is a result of being reliable, professional and innovative, having contributions to society, and adding prestige to its user. It is expected that image has a positive effect on customer expectations, customer satisfaction and loyalty.

Customer Expectations

Expectations are the results of prior experience with the company's products. This construct evaluates customer expectations for overall quality, for product and service quality, and for fulfillment of personal needs. Customer expectations construct is expected to have a direct and positive relationship with customer satisfaction (Anderson et al., 1994)

Figure 1: Customer Satisfaction Index Model



Perceived Quality

PQ is the served market's evaluation of recent consumption experience. This construct evaluates customization and reliability of a given product or service. Customization is the degree to which a product or service meets a customer's requirements, and reliability is the degree to which firm's offering is reliable, standardized, and free from deficiencies. PQ is expected to have a positive effect on PV and customer satisfaction (Fornell et al., 1996), and to be positively affected by image (Andreassen and Lindestad, 1998).

Perceived value

PV is the perceived level of product quality relative to the price paid by customers. PV is the rating of the price paid for the quality perceived and a rating of the quality perceived for the price paid. PV structure provides an opportunity for comparison of the firms according their price-value ratio. In the ECSI model, PV is expected to be positively affected by PQ, and it has a positive impact on satisfaction.

Customer Satisfaction

The index indicates how much customers are satisfied, and how well their expectations are met. This construct evaluates overall satisfaction level of customers, fulfillment of their expectations, and company's performance versus the ideal provider.

Research hypotheses are listed below:

- H1: Customer expectations are positively related to perceived quality.
- H2: Customer expectations are positively related to perceived value.
- H3: Customer expectations are positively related to customer satisfaction.
- H4: Image is positively related to customer expectation.
- H5: Image is positively related to customer satisfaction.
- H6: Image is positively related to customer loyalty.
- H7: Perceived value is positively related to customer satisfaction.

- H8: Customer Satisfaction is positively related to customer loyalty.
H9: Perceived quality is positively related to perceived value.
H10: Perceived quality is positively related to customer satisfaction.

RESEARCH METHODOLOGY

Survey Setting

A case study method was used to collect the required data on the underlying dimensions of the research model. Turk Telekom Company which is the largest telecommunication company in Turkey was chosen as an ideal research setting in Turkey. Data were gathered from a face-to-face survey. Although the sample frame was the entire Turk Telekom customers, the sample of customer responses was drawn from five central districts of Istanbul. The survey was conducted to 280 Turk Telekom customers in 2009. The eligible respondents were those who qualify by recent experience as the purchaser and user of fixed line PSTN or broadband internet users. Among all collected data set, 266 were found satisfactory for data analysis. Occasional missing data on variables was handled by replacing them with the mean value.

Survey Instrument

The ECSI model consists of the aforementioned constructs which are based on well-established theories and approaches in customer behavior. The constructs of the ECSI model are unobservable (latent) variables indirectly described by a block of observable variables which are called manifest variables or indicators. The constructs and their observable items are given in Table 3. The use of multiple questions for each construct increases the precision of the estimate, compared to an approach of using a single question.

A survey, developed to measure the manifest variables, was prepared in Turkish language, and the first draft was issued to 30 individuals to ensure that the wording, format, and sequencing of questionnaire appropriate. Feedback from this study indicated that some questions were ambiguous, difficult to understand, or irrelevant for telecommunication sector. The final questionnaire contained 19 questions pertaining to the CSI. A five-point measurement scale was used where 1 expresses a very negative point of view and 5 expresses a very positive.

Reliability and Validity Protocols

To insure reliability and validity of the measures (i.e. internal consistency and convergent-discriminant validity respectively) as suggested by Gerbing and Anderson (1988) and Churchill (1979), the data were subjected to confirmatory factor analysis (CFA) within the causal modeling Lisarel framework. This procedure is preferable to exploratory factor analysis (EFA) in that it is a causal indicator model that requires a priori specifications of factor structure and allows for the specification of measurement errors (Venkatraman, 1989).

Table 3: The latent variables and their observable indicators in the CSI Model

Latent variables	Observable (manifest) variables
Image (IM)	IM1: being reliable IM2: being professional IM3: customer relations IM4: innovative and forward looking IM5: adding value to user (prestige)
Expectations (EXP)	EXP1: expectations for fulfillment of personal need EXP2: expectations for overall quality EXP3: expectations for product quality
PQ	PQ1: overall quality PQ2: product quality (technical) PQ3: service quality PQ4: customer services
PV	PV1: price/performance PV2: performance/price

CSI	CSI1: Compare with ideal CSI2: fulfillment of expectations
CL	CL1: repurchase intention
	CL2: recommendation to others
	CL3: price tolerance

DATA ANALYSIS AND RESULTS

The analysis used in this study is undertaken in two stages. In the first stage, the overall reliability and validity of CSI Model in Turk Telekom Company is measured. In the second stage, we measure the relationships among constructs using the covariance based Structural Equation Model. These steps are discussed in the following subsections.

Unidimensionality and Convergent Validity

CFA was used on the collected data to evaluate the unidimensionality of each of the six dimensions of ECSI Model. Table 4 summarizes the results of this analysis.

Table 4. Initial confirmatory factor analysis results

Construct	Number of indicators	Chi-square	df	p-value	GFI	AGFI	CFI	TLI	AVE	alpha
IM	5	7,331	6	0,291	0,99	0,96	0,99	0,99	0,51	0,860
EXP	3	0,608	1	0,436	0,99	0,99	1,00	1,00	0,55	0,838
PQ	4	0,049	2	0,976	1,00	0,99	1,00	1,01	0,67	0,905
PV	2	-	-	-	-	-	-	-	-	0,916
CSI	2	-	-	-	-	-	-	-	-	0,826
CL	3	-	-	-	-	-	-	-	-	0,851

Note: - CFA results cannot be obtained due to inadequate number of variables constituting this dimension.

Results provide the following model statistics for the assessment of goodness-of-fit: chi-square statistics, its associated degrees of freedom, p-value of significance, GFI, AGFI, CFI, and Tucker–Lewis index. One can conclude that each of the 3 dimensions achieves unidimensionality and convergent validity at monomethod levels of analysis. To exemplify, six items constituting the image dimension were subjected to CFA using the AMOS computer program. The chi-square statistic was 7,331 (degrees of freedom = 6, $p > 0.05$), with the chi-square/df ratio having a value of 1,222, which is less than 2.0 (it should be between 0 and 3 with lower values indicating a better fit). The goodness-of-fit index (GFI) was 0.990 and the adjusted goodness-of-fit (AGFI) index was 0.966. These scores are very close to 1.0 (a value of 1.0 indicates perfect fit). The comparative fit index (CFI) was 0.998, while the Tucker–Lewis coefficient (TLI) was 0.994. All indices are close to a value of 1.0 in CFA indicating that the constructs provide good support for the factor structure.

As is evidenced by the chi-square statistic with the associated degrees of freedom, the p-value of significance, GFI, AGFI, CFI, and TLI (Tucker Lewis Index) provided in Table 4 that measure goodness-of-fit, all of the analyzed dimensions of service quality are unidimensional, having strong convergent validity.

Convergent validity is the extent to which indicators of an ECSI construct converge or share a high proportion of variance in common. Table 4 also shows that most of the fit indices are within the acceptable range for each construct. This provides first-hand support for reliability and convergent validity of the constructs. We further looked at the significance of individual factor loadings of each item. All the individual factor loadings were found to be highly significant, giving support to convergent validity. We also calculated the average variance extracted (AVE) for each construct. These values are shown in Table 4. The values of AVE were higher than the recommended value of 0.50, providing further support to convergent validity of constructs. The standardized regression weights for all variables constituting each dimension were also found to be significant ($p < 0.01$).

Reliability

The reliability of the scales is related to the homogeneity of their items. It is a measure of the ability to produce the same results on repeated trials. Cronbach's alpha is commonly used to measure internal consistency of the scales. It is based on the average correlation between items within a test. Cronbach's alpha is calculated for each scale. Table 4 lists Cronbach's alpha values of the scales developed. All the construct measures of are over 0.80, thus exhibiting a satisfactory level of construct reliability. This establishes the internal consistency of the dimensions being studied and is reliable for this research.

The Path Model

Structural Equations Modeling (SEM) using AMOS 4.0, a software program that is a part of the Statistical Package for Social Sciences (SPSS) was used on the data set to test the causal relationships specified in the model as shown in Figure 1. For example, the causal relationships among constructs were explored and tested. The problem of missing data across the sample of 266 respondents was small at a calculated value of less than one percent. In these situations, the mean value of the variable was used. Model fit determines the degree to which the structural equation model fits the sample data. The commonly used model fit criteria are chi-square (χ^2), goodness of fit index (GFI), adjusted goodness of fit index (AGFI) and root mean square residual (RMS) (Schumacker and Lomax, 1996).

The goodness-of-fit indices for the path model [Satorra-Bentler $\chi^2 = 261.31$ with $df = 139$; GFI = 0.91; AGFI = 0.887; TLI = 0.953; CFI = 0.962; RMR = 0.040] are well within the generally accepted limits, indicating a good fit to the data.

The standardized regression weights for all variables constituting each dimension which is shown in Table 5 were also found to be significant at 0.01 level.

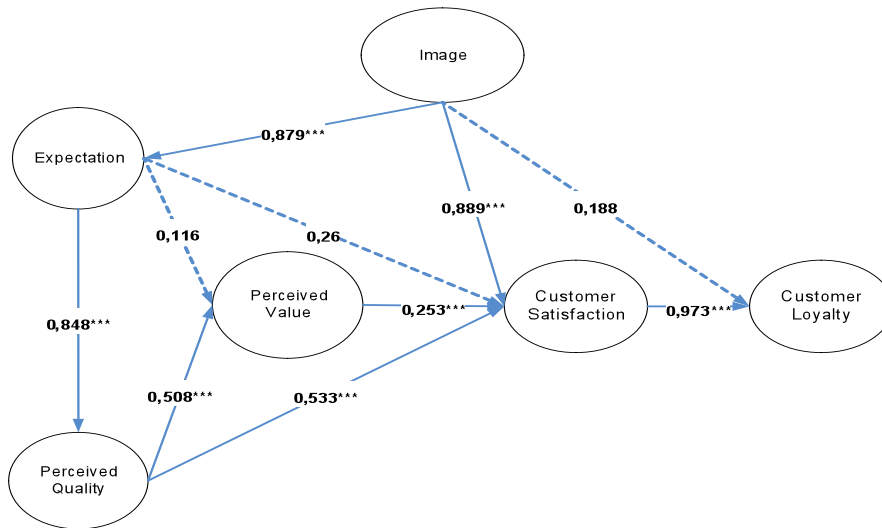
Table 5. Standardized Regression Weights

Latent variable	Manifest variable	Regression weight	t-value*
IM	IM6	0,669	-
IM	IM5	0,739	10,383
IM	IM4	0,686	10,606
IM	IM2	0,731	10,16
IM	IM1	0,794	10,909
EXP	EXP3	0,657	-
EXP	EXP2	0,74	10,139
EXP	EXP1	0,709	9,801
PQ	PQ4	0,777	14,709
PQ	PQ3	0,847	16,171
PQ	PQ2	0,845	-
PQ	PQ1	0,845	16,634
PV	PV2	0,913	-
PV	PV1	0,926	17,944
CSI	CSI3	0,747	-
CSI	CSI2	0,745	12,308
CL	CL3	0,684	-
CL	CL2	0,882	12,659
CL	CL1	0,891	12,733

Note: - Fixed for estimation; *all values are significant at the 0.01 level

Figure 2 presents inner regression weights for the structural relationships between causal paths based on the structural equation modeling technique. The results show that seven parameter estimates out of ten were found to be statistically significant.

Figure 2: The Results of the Path Analysis



Note: *** values are significant at 0.01.

CONCLUSION

As we can see from figure 2, the analysis related to testing the postulated hypotheses supports the first hypothesis (H1), i.e. customer expectation is positively related perceived quality. The fourth hypothesis (H4), image is positively related to customer expectation. Hypothesis five (H5), i.e. image has a positive effect on customer satisfaction is also supported. Hypothesis seven (H7), perceived value is positively related to customer satisfaction. The next hypothesis (H8), also provide a strong support between customer satisfaction and loyalty. In a similar vein, a strong support has also been found for H9 denoting that the positive relationship between perceived quality and perceived value. Hypothesis (H10), i.e. perceived quality has a positive effect on customer satisfaction is supported. Finally, no support has been found for hypotheses (H2), (H3) and (H6). These were the relations between customer expectations and perceived value, image and customer satisfaction, and customer expectations and customer satisfaction constructs. The highest impact on customer satisfaction factor was found as perceived quality. In addition that the highest score among constructs was found between customer satisfaction and customer loyalty as a score of 0.973. For the most part the findings reported in this study are consistent with the earlier research related to the customer satisfaction model.

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THE ROLE OF PERSONALITY TRAITS IN STATUS CONSUMPTION: A STUDY INTO DOMESTIC AND FOREIGN BRANDS

Aysel Erciř and Sevtap Ünal
Atatürk University/Turkey

Bilsen Bilgili
Kocaeli University/Turkey

ABSTRACT

In this study, it was aimed to determine whether personal influence and self-monitoring had an impact on status consumption tendencies of consumers or not. The relationship between status consumption in consumer behaviors and domestic/foreign brand preferences was also investigated. For this purpose, 382 questionnaires were administered to the consumers shopping in İstinye Park and Kanyon shopping malls in Istanbul (Turkey). To test the research model, Structural Equation Model (SEM) test was used by using LISREL 8.7 statistics programme. In order to determine the relationship between brand preferences and status consumption tendencies of the respondents, correlation analysis was conducted by using SPSS 17.0 program. According to the results of the research, it was determined that personal influence and self-monitoring had an impact on status consumption. It was also found out that prestige and foreign brands were preferred more in status consumption. According to the results obtained, some suggestions were made for the companies in ready-to-wear sectors.

Keywords: *Consumer Behavior, Status Consumption, Self-monitoring, Personal Influence*

INTRODUCTION

Conspicuous consumption is quite an old phenomenon. It is defined as the spending mainly for the purpose of displaying the person's status and prestige to the surrounding others. Under these consumptions lies the perception of the purchased products as an indicator of prestige by the surrounding others. The person is satisfied with the buying decision when the surrounding others see the purchased product as a product of prestige (Kilsheimer, 1993). In several studies conducted in the field of marketing, conspicuous and status consumption has been considered as the concepts that define the same phenomenon. Kilsheimer defined status consumption as "conspicuous consumption that a person does to display his/her status or prestige to the surrounding others" (Kilsheimer, 1993: 341). Researchers stated that these two concepts were related but distinct phenomena (Eastman, Goldsmith and Flynn, 1999; Roberts, Gwin and Martinez, 2004). Conspicuous consumption is the purchase of goods and services consumed in the society for the purpose of enhancing one's prestige in the society and the use of these goods and services to influence other people in the society and satisfy one's ego (O'Cass and McEwen, 2005). Status consumption is defined as "the motivational process by which individuals show their social standing through the purchase of products that symbolize status for the surrounding others" (Heaney, Goldsmith, Jusoh, 2005:85). As it is seen, there are differences between the two terms. While ostentation is important in conspicuous consumption, there is a tendency to consume according to the social class in status consumption. The common point for both terms is that such spending is done to give special messages to the surrounding others. For this reason, personal traits play an important role in such spending because the conspicuous and status consumption tendencies are also high among those who are more inclined to get influenced by the social surrounding and behave accordingly (O'Cass and McEwen, 2005).

For this reason, in the study it was aimed to investigate only status consumption and determine which types of foreign and domestic ready-to-wear brands are preferred in status consumption. Additionally, in case of consumer's assessing the brands as indicators of status and prestige, the role of their ego and level of influence by the social surrounding were investigated. In the first part, theoretical information was provided about

conspicuous-status consumption, self-monitoring and personal influence; in the second part, the conspicuous and status consumer tendencies and their foreign or domestic brand preferences were examined.

The Concept and Characteristics of Conspicuous and Status Consumption

Conspicuous and status consumption was first mentioned in the studies conducted by Veblen on social classes. Veblen stated that conspicuous consumption is the spending done by the upper class and the other social classes who want to resemble them for the purpose of ostentation (Mason, 2001).

The researches related to status and conspicuous consumption mostly carried out by sociologists and anthropologists were conducted to understand the consumer behavior in the field of marketing. In status consumption, the ownership of some products and brands or the mood created by using them can be perceived as a status symbol since purchase of some products and brands is accepted as one of the most important indicators of success and power. Not all such spending is thought to be for the purpose of ostentation. Thus, status consumption is defined as “the motivational process by which individuals show their social standing through the purchase of products that symbolize status for the surrounding others” (Heaney, Goldsmith and Jusoh, 2005:85). Conspicuous consumption is defined as “the purchase of goods and services consumed in the society for the purpose of enhancing one’s prestige in the society and the use of these goods and services to influence other people in the society and satisfy one’s ego” (O’Cass and McEwen, 2005: 27).

O’Cass and McEwen, in their study (2005), argued that status and conspicuous consumption were different phenomena and tested it. According to the results they found out, status and conspicuous consumption are separate but related constructs. Taking this into consideration, conspicuous consumption and status consumption were examined separately in this study.

In the researches conducted about conspicuous and status consumption, demographic, personal and cultural characteristics of the individuals who are interested in conspicuous and status consumption were examined (Kilsheimer 1993; Marcoux, Filiatrault and Cheron 1997; Eastman, Goldsmith and Flynn 1999; Goldsmith, Clark and Goldsmith 2006). According to the research results, personal characteristics such as materialism (Eastman et al. 1997; Roberts 2000; Rose and DeJesus, 2007), social ego (Wong (1997), being different (Heaney, Goldsmith and Jusoh, 2005) and culture (Chen 2002) played an important role in such kind of spending. Conspicuous consumption tendency is higher for those who are materialist, care about social ego and have high personal influence (Bearden, Netemeyer and Teel, 1989).

Kilsheimer (1993), in his dissertation, developed a scale to measure status consumption. The researcher considered status and conspicuous consumption as the same phenomena. The author examined status consumption in detail and the antecedents, dimensions and results of the behavior. The antecedents of status consumption includes consumption for status, supporting ego by using the product, moving up the social ladder, culture, product involving status symbol and ignoring functional characteristics of the product. The three dimensions of status consumption are; socializing, showing interest in consumption to gain status, and purchasing other than functional reasons. The results are; purchasing status products, choosing status brands, positive attributions to status brands, using different media and communication sources for status products, benefiting from different type of spending to purchase these products, and low price sensitivity.

Marcoux, Filiatrault and Cheron (1997) examined conspicuous consumption behaviors of Polish students. According to the results they found out, conspicuous consumption is quite common among the students and the determinants of such consumption are generally brands of American origin. In their study, the researchers also developed conspicuous consumption scale including five dimensions. The dimensions of conspicuous consumption are as follows: 1. Materialistic hedonism, 2. Communication of belonging to/dissociation from a group, 3. social status demonstration, 4. interpersonal mediation, 5. Ostentation.

In conspicuous consumption, people who admire others try to be like them. A general characteristic of conspicuous consumption is that other people perceive products as symbols of wealth instead of benefiting from them. The reason for this is the desire to exaggeratedly show the product to the surrounding others (Mason, 2001, Wong, 1997). In a sense, people attempt to show their purchasing power to others. With these efforts, they give messages to others to show that they are wealthy, different, and belong to a specific group (Amaldoss and Jain, 2005). Therefore, only luxury and expensive goods are preferred in conspicuous consumption. It is particularly important that the goods to be consumed in the society be luxury and expensive (Eastman, Goldsmith and Flynn, 1999). The level of satisfaction is determined depending on the reactions of other people to the product. Rather than economical and psychological advantages to be gained from the product, consumption is shaped by the influence of social environment. Admiration of the product/brand by the surrounding others increases the satisfaction level of the individual (Chen, 2002, Chen, et. al 2005, Mason, 2001).

Wong (1997) examined the relationship between conspicuous consumption, materialism and self. According to the results of the study, those who are materialistic and care about social self are more inclined to

conspicuous consumption. Eastman et al. (1997) investigated the relationship between status consumption and materialism in a cross-cultural study. In the study conducted on American, Chinese and Mexican students, they found out that there are different points of view on materialism and status consumption, but there is a relationship between status consumption and materialism in the three cultures. Goldsmith et al. (2006) investigated the demographic characteristics of market mavens and the relationship of market mavenism with status consumption and innovativeness. In identifying market mavens, it was determined that demographic characteristics are not determinants. In determining market mavens, innovativeness and status consumption were found out to be more explanatory. Heaney, Goldsmith and Jusoh (2005), in their study, examined the relationship between materialism, being different and status consumption. The researcher stated that materialism and status consumption are separate but related concepts. According to the study, there is a relationship between materialism, uniqueness and status consumption. Roberts (2000) investigated the relationship between compulsive buying, materialism and status consumption. According to the results of the study, those who are materialists and have a high tendency in status consumption are more inclined to compulsive buying. Roberts, Gwin and Martinez (2004), in their study, examined the effect of family wealth, structure, and consumption tendency on compulsive buying and materialism. Additionally, they examined the relationship between compulsive buying and status consumption which is considered as intervening variable. According to the results, there is a relationship between compulsive buying and family's being materialist or not, family's being together or not (death, separation) and family's having a tendency in status consumption. The tendency towards status consumption and compulsive buying in materialistic and disrupted families is higher.

Furthermore, Marcoux, Filiatrault and Cheron (1997) examined conspicuous consumption behaviors of the students. They tried to determine the conspicuous consumption tendencies of the students in the direction of their preferences of Polish and American brands. According to the results of the study, conspicuous consumption is quite common and brands of American origin are generally more preferred in such kind of consumption. Considering the assumption that foreign brands are perceived by the consumers as an indicator of more prestige, it is hypothesized that

H1: Consumers prefer foreign brands in status consumption.

Self and Self-Monitoring

It is not possible to think of self-concept, personality, life style, and values separately while examining consumer behaviors. With the joint effect of these variables, also expressed as psychographic variables, consumer is directed to a specific behavior. Especially, self-concept appears to have a "fixed" or "adaptable" structure according to both social surrounding and personal traits. Therefore, in understanding consumer behaviors, self-concept provides descriptive information about the inner and external world of consumers (Aaker, 1999).

Self, in general, is one's perception of one's own being or identity. It is the evaluation and interpretation of individual's own characteristics by comparing their external surrounding and other people (Reed II., 2002: 236; Loroz, 2004: 326). Individuals are aware of their own self and usually define their self-concepts according to their relations with the others (Wee and Ming, 2003: 209). It is stated that self-concept has three basic dimensions. These are; the material self (one's body, physical elements and material assets), the social self (one's desire to be like the other people) and the spiritual self (one's inner world) (Abe, Bagozzi and Sadarangani, 1996: 98). Therefore, it is not possible to talk about only one self-concept for individuals. A general distinction is made as follows: *Real self* is the self that an individual has in the direction of his/her characteristics. *Ideal self* is the composite of the characteristics that an individual desires to have (Koç, 2007: 176; Solomon, 2007: 157). *Real social self* means how the others perceive the individual and *ideal social self* means how the individual wants the others to perceive him/her (Hong and Zinkhan, 1995: 54; Sandra, 2002: 53).

Another concept associated with the self is self-monitoring. Self-monitoring was first used by Snyder in 1974. *Self-monitoring* is the degree to which individuals observe the situations and behaviors in their surroundings and controls their behaviors accordingly (Aaker, 1999: 47; Darley and Lim, 1992: 332; Polat and Umay, 2003: 198). That is, it is the ability to control the susceptibility and reactions of others. Two types of self-monitoring are mentioned. First, high self-monitoring; second, low self-monitoring. High self-monitoring means adapting behaviors according to the social patterns. These people monitors social cues very carefully and do not exhibit any behaviors other than those. Low self-monitors do not get influenced by the external surrounding while exhibiting their behaviors. These people do not have the ability to modify themselves according to the social cues and behavioral patterns. They even do not want to do such a thing. On the contrary, they do what they know in any setting and under any circumstances. Therefore, it is seen that these people do not pay more attention to social norms and social self. On the other hand, it is found out that high self-monitors pay great attention to ideal social self (Graef, 1996; O'Cass and McEwen, 2005; Ricks and Veneziano, 1998; Spangenberg and Sprott, 2006).

O’Cass, in his study (2000), developed self-monitoring scale and divided it into two subgroups as self-monitoring susceptibility and self-monitoring tendency. The researcher argued that self-monitoring did not constitute one dimension and that two-factor model would be more useful to explain consumer behaviors. Self-monitoring susceptibility measures individuals’ perception level of environment, whereas self-monitoring tendency measures the conformity of behaviors to the environment.

Individuals’ having high and low self-monitoring characteristics enables them to interpret their surrounding and the world and show what kind of personality they exhibit. It is argued that five basic characteristics of self-monitoring play an important role in this: 1.the importance individual gives to social approval in expressing themselves, 2.the level of individual’s paying attention to social comparison, 3.individual’s ability to adapt their behaviors to the surrounding and control them, 4. the characteristics of using this ability in specific situations, and 5.individual’s being consistent or changeable in expressing themselves and their behaviors (Bearden, Shuptrine and Teel, 1989: 703). For example, the things high self-monitors should do or not are determined by their surroundings because these individuals pay attention to external cues and stimulants (Lammers, 2002). They are also evaluated as good actors that can get adapted to any circumstances. They are quite social people. They have a lot of friends. However, they are not sincere with their friends. Friends are those chosen to help them adapt to different settings. Each friend is influential on their own surrounding. Although high self-monitors have different behavior patterns according to the situations and conditions, they have motivating aims. This aim is to be a beloved, wanted and admired person (Ricks and Veneziano, 1998; Rose and DeJesus, 2007). Low self-monitors pays more attention to the cues and stimulants from their inner world. Therefore, they choose friends that have highly similar attitudes (Lammers, 2002). The reason for such a selection is that they increase their strength to express themselves and the level of their approval by means of individuals like them (Harnish and Bridges, 2006).

According to the researches, high self-monitors pay attention to the approval of the attraction and quality of the message source by the others while making decisions. Low self-monitors pays attention that message source should be an expert while making decisions. High self-monitors get influenced by the advertisements emphasizing image of the product. On the contrary, for low self-monitors advertisements emphasizing functional characteristics of the product are more influential because these individuals make decisions according to their functional characteristics (Graeff, 1996). Shavitt, Lowrey and Han (1992) examined how self-monitoring affected the attitudes towards advertisements. According to the results, high self-monitors mostly assessed the advertisements in the direction of social surrounding. Low self-monitors paid attention to the utilitarian message cues of the advertisements. Harnish and Bridges (2006) investigated the relationship between the characteristics of self-monitoring and making social comparisons with others, and individuals they prefer to get information. According to the results, high self-monitors make more social comparisons. While comparing they choose the information sources they use among high-self monitors like them. Low self-monitors do not have such a tendency.

Graeff (1996), in his study, examined the relationship between the preferences on consumed brands personally and among other people and self. Consumers are greatly influenced by the point of view of the surrounding others in the brand preference of consumed products in a way the other people can see. The same situation is not valid for the brands of the personally consumed products. For high self-monitors, the brands to be consumed among other people mostly depend on their reaction to the brand. Low self-monitors, on the other hand, get affected less by the reactions of the other people in their preference of brands. Rose and DeJesus (2007), in their study, examined the relationship between materialism and self-monitoring. It was seen that high self-monitors were more inclined to materialism. The researcher stated that having expensive and more products means approval by society for high self-monitors. Hog, Cox and Keeling (2000), in their study, examined the relationship between self-image of the individual and product/brand image. They investigated brand image evaluations of consumers in congruence with their self for the brands of alcoholic soft drinks. The results show that self-monitoring of the consumers in their preferences of alcoholic soft drink brands plays a distinctive role. The preferences of high self-monitors can change depending on the place and setting where they will consume drinks. For those individuals it is quite important for the drink to support individual’s self-image. For low self-monitors, image of the drink is not important, its content is important. A similar study was conducted by Ratner and Kahn (2002). They examined the influence level of the consumers by their surroundings and self-monitoring in variety-seeking. According to the results, consumers seek for more kinds and prefer different brands since they are alone in the setting they interact with people. Self monitoring is effective on variety seeking as an intervening variable. For high self-monitors, the tendency to image-oriented variety-seeking is higher. Thus, the following were hypothesized:

H2: Self-monitoring has an impact on status consumption.

Relationship of Personal Influence with Self and Status Consumption

Consumers mostly make decisions under the impact of their surroundings. Especially the advisory groups that an individual asks for advice are quite influential on consumer behaviors. The individual sees the reference group as an important data source (Solomon, 2007; Mowen, 1993).

The effect of the reference group on consumer behavior gets affected by two factors. These are; the goods/brand is luxury or compulsory goods, and the use of product/brand personally or in common areas. When the product has the status of a luxury goods and is used in common areas, the reference group has a strong effect on both product and brand choices. In case of a product for personal use or a compulsory product, the effect of reference group is weak (Solomon, 2007: 382). People interested in conspicuous and status consumption want to give some messages by showing other people either their social status or the things they own. Additionally, satisfaction with these consumptions depends on other people's or reference group's approval of these goods. Therefore, they direct people towards such kind of consumption (Amaldoss and Jain, 2005; Chen, 2002; Kilsheimer, 1993)

It is possible to find several researches investigating the impact of reference groups on consumer behavior. (Ford and Ellis, 1980; Graef, 1996; Harnish and Bridges, 2006; Ratner, Kahn, 2002). Bearden, Netemeyer and Teel (1989), in their study, developed a scale to determine the influence levels of consumers from other people. They argued that individuals' interaction with their surroundings constitutes two basic dimensions as normative and informational. That is, people interact by gathering information from reference groups or imitating their preferences. Escalas and Bettman (2005), in their study, examined the effect of the self and reference groups on brand meaning of consumers. Individuals prefer brands that support their self. However, brand meaning to support the self changes depending on the reference group's point of view. Thus, the following were hypothesized:

H3: Personal Influence has an impact on status consumption.

The model developed for the purpose and hypotheses of the research is shown in Figure 1.

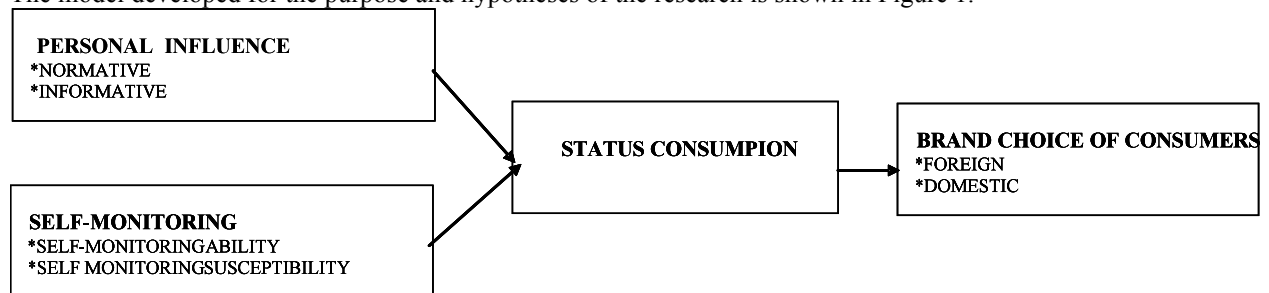


Figure 1. Research Design

RESEARCH DESIGN

Method

Within the scope of the study, consumers shopping in two shopping malls selling foreign and domestic luxury-wear brands in İstanbul (Kanyon and İstinye Park Shopping Malls) were included. Sample size of the study was determined as 400, representing 95% confidence intervals with an error margin of 5%. Firstly, data were gathered by survey method. As a survey method, convenience sampling, one of the non-probabilistic sample methods, was used. Prepared surveys were administered to the respondents during weekdays (Monday, Wednesday and Friday) and weekends at 12.00-22.00 pm. for 3 weeks in the shopping centers mentioned above during March 2010.

There were five groups of close-ended questions in the survey to be measured on nominal, ordinal, and interval scales. The first group of questions was prepared to determine the demographic characteristics of the respondents. The second group was arranged to determine brands which are considered as luxury in ready-to-wear brands and the purchase of brands by the respondents during the last two years. There were 20 luxury and non-luxury ready-to-wear brands (10 domestic - 10 foreign) in the survey. Respondents were asked to mark the brands they considered as luxury brands and determine which brands they bought during the last two years. In addition, they were asked to mark which brands were domestic and foreign. Thus, respondents' luxury brand

knowledge, choices and foreign brand rate in these choices were determined. The third group of questions was prepared to determine status consumption tendencies, the fourth group was prepared to determine self-monitoring, and the fifth group of questions was prepared to determine the level of personal influence.

Status consumption tendency was tested by the scale developed by Eastman, Goldsmith and Flynn (1999), self-monitoring by the scale developed by O’Cass’ (2000) and the level of personal influence by the scale developed by Bearden, Netemeyer and Teel (1989). Items were measured on a 5-point Likert by using SPSS 17.0 and Lisrel 8.3 statistical programmes. In data analysis, frequency distributions, confirmatory factor analysis, Correlasyon analysis and Structural Equation Model (SEM) test were used.

Data analysis and hypotheses test results

Frequency distributions of the demographic characteristics of the respondents participated in the research was shown in Table 1.

Table 1. Demographic characteristics of respondents

Demographic Characteristics		Number n	Percent %
Gender	Female	214	56.0
	Male	168	44.0
Age	18-27	95	24.9
	28-37	184	47.4
	38-47	69	18.1
	47-58	27	7.1
	58 and over	10	2.6
	Education	Primary Education	14	3.7
	Secondary Education	109	28.5
	University	244	63.9
	Postgraduate	15	3.9
Marital Status	Married	166	43.5
	Single	216	56.5
Monthly Average Income Level of the Family	0-2000 TL	18	4.7
	2001-4000 TL	65	17
	4001-6000 TL	54	14.1
	6001-8000 TL	121	31.7
	8001 and over	124	32.5
Profession	Civil Servant	46	12.0
	Worker	9	2.4
	Self-employed	43	11.3
	Those Working for Private Sector	141	36.9
	Housewife	42	11.0
	Industrialist/Businessman	53	13.9
	Student	42	11.0
	Retired	6	1.6
TOTAL		382	100.0

56% of the respondents were female, 65.5% were between the ages 28 and 47, 67.8% were university graduates and postgraduates, and 56.5% were single. The level of income of 64.2% of the respondents were 6001 TL and over. 36.9% were working for private sector. The other professional groups showed a close distribution with each other.

Ready-to-wear brand preferences and buying behaviors of respondents

In order to determine the status consumption preferences and behaviors of the respondents, 20 ready-to-wear brands, prestige and non-prestige, were given to the respondents in a list and they were asked to mark the prestige brands. Then they were asked to mark the brands they bought during the last 2 years. Thus, the level of prestige brand preferences of the respondents was tried to be determined. The results were shown in Table 2.

Table 2. Knowledge and preference levels of respondents on ready-to-wear brands

Brand Name	Prestige Brand Level of Recognition		Prestige Brand Level of Purchase		Foreign Brand Level of Recognition	
	No	Percent	No	Percent	No	Percent
Network	292	76.4	130	34.0	325	85.1
MaxMara	284	74.3	17	04.4	317	83.1
Beymen	330	86.3	122	32.0	94	24.6
Armani	349	91.3	90	23.4	219	57.3
Vakko	330	86.3	111	29.1	100	26.1
Oxxo	276	72.3	112	29.3	301	78.9
Koton	283	74.1	48	12.5	212	55.5
İpekyol	250	65.4	150	32.3	40	10.5
Moschino	289	75.7	26	06.8	296	77.4
Adil Işık	260	68.1	45	12	44	11.5
Zara	269	70.4	79	23	25	06.5
Machka	278	72.8	49	29	315	82.5
Burberry	328	85.9	134	35.1	350	91.6
Polo Garage	327	85.6	160	41.9	331	86.6
Quicksilver	289	75.7	47	12.3	340	89.0
LC Waikiki	248	65.0	90	23.6	236	61.8
Gucci	328	85.9	132	34.6	342	89.5
Colin's	275	72.1	91	23.8	285	74.6
Marks&Spencer	298	78.0	82	23	341	89.3
Louis Vuitton	336	88.0	52	13.6	346	90.5

As seen in Table 2, the level of brand recognition of the respondents was high. The level of prestige brand buying of the respondents was 30% on average. However, as seen in Table 2, respondents' distinctions of foreign and domestic brands were not fully correct. It was observed that respondents marked some domestic brands (Network, Machka, Oxxo, Colin's) as foreign brands.

Testing of research model

In the study, confirmatory factor analysis was used to test personal influence, self-monitoring and status consumption scales (the tables indicating the mean and standard deviation values of the scales were presented in the annex to this paper). The variables indicating negative variance, exceeding standard coefficients (very close to 1.0) or presenting high standard error values were checked (Hair et al., 1998, p. 610) and inappropriate variables were eliminated.

Firstly, personal influence scale was tested. It was seen that model fit values of the scale was not on an acceptable level. In the direction of the suggested modifications, with the elimination of 4 variables, 2 from the "normative" dimension and 2 from the "informative" dimension, the scale was on an acceptable level. According to the scale developed by Bearden, Netemeyer and Teel (1989), interpersonal influence constitutes two dimensions as normative and informative. As a result of the confirmatory factor analysis, it was seen that the scale developed by the authors was consistent with our sample. The model fit values before and after modifications were shown in Table 3.

Table 3. Personal influence scale test

Fit Index	Before Modification	After Modification	Acceptable Fit
Absolute Fit Value			
Chi-square (X^2)	529.93	75.86	
Degree of freedom	52	18	
Chi-square/degree	10.17	4.21	1-5

of freedom			
GFI	0.78	0.92	$0,90 \leq GFI \leq 0,95$
AGFI	0.67	0.85	$0,85 \leq AGFI \leq 0,90$
RMSR	0.11	0.070	$0,05 \leq RMSR \leq 0,08$
RMSEA	0.17	0.080	$0,05 \leq RMSEA \leq 0,08$
Incremental Fit Value			
CFI	0.93	0.96	$0,95 \leq CFI \leq 0,97$
NNFI	0.91	0.93	$0,95 \leq NNFI \leq 0,97$
NFI	0.92	0.95	$0,95 \leq NFI \leq 0,97$

Secondly, confirmatory factor analysis was conducted for self-monitoring scale consisting of two dimensions as self-monitoring ability and self-monitoring susceptibility. It was found out that model fit values were not on an acceptable level. In the direction of the suggested modifications, 4 variables, 3 from self-monitoring ability dimension and 1 from self-monitoring susceptibility dimension, were eliminated. After modification it was observed that model fit values were on an acceptable level. The results were shown in Table 4.

Table 4. Self-monitoring scale test

Fit Index	Before Modification	After Modification	Acceptable Fit
Absolute Fit Value			
Chi-square (X^2)	283.97	54.17	
Degree of freedom	52	18	
Chi-square/degree of freedom	5,46	3.01	1-5
GFI	0.87	0.97	$0,90 \leq GFI \leq 0,95$
AGFI	0.80	0.93	$0,85 \leq AGFI \leq 0,90$
RMSR	0.11	0.054	$0,05 \leq RMSR \leq 0,08$
RMSEA	0.12	0.073	$0,05 \leq RMSEA \leq 0,08$
Incremental Fit Value			
CFI	0.86	0.95	$0,95 \leq CFI \leq 0,97$
NNFI	0.83	0.93	$0,95 \leq NNFI \leq 0,97$
NFI	0.84	0.93	$0,95 \leq NFI \leq 0,97$

Confirmatory factor analysis was conducted for status consumption scale, one of the variables of the research model, and it was determined that model fit values were not on an acceptable level. In the directions of the suggested modifications, 1 variable was eliminated from status consumption scale. Model fit values were on an acceptable level after modification. The results were shown in Table 5.

Table 5. Status consumption scale test

Fit Index	Before Modification	After Modification	Acceptable Fit
Absolute Fit Value			
Chi-square (X^2)	23.53	3.72	
Degree of freedom	5	2	
Chi-square/degree of freedom	4.71	1.86	1-5
GFI	0.98	1.00	$0,90 \leq GFI \leq 0,95$
AGFI	0.93	0.98	$0,85 \leq AGFI \leq 0,90$
RMSR	0.081	0.014	$0,05 \leq RMSR \leq 0,08$
RMSEA	0.099	0.048	$0,05 \leq RMSEA \leq 0,08$
Incremental Fit Value			
CFI	0.97	1.00	$0,95 \leq CFI \leq 0,97$
NNFI	0.97	0.99	$0,95 \leq NNFI \leq 0,97$
NFI	0.93	0.99	$0,95 \leq NFI \leq 0,97$

In the study, the research model examining the relationships between personal influence, self-monitoring dimensions and status consumption was tested by path analysis. In the direction of the modifications suggested in the model, 3 variables, 2 variables from self-monitoring susceptibility dimension and 1 variable

from the “informative” dimension of personal influence, were eliminated. Model fit values were on an acceptable level after modification. The results were shown in Table 6.

Table 6. Model fit values

Fit Index	Before Modification	After Modification	Acceptable Fit
Absolute Fit Index			
Chi-square (X^2)	641.00	196.51	
Degree of freedom	221	97	
Chi-square/degree of freedom	2.9	2.03	1-5
GFI	0.86	0.94	$0,90 \leq GFI \leq 0,95$
AGFI	0.83	0.92	$0,85 \leq AGFI \leq 0,90$
RMSR	0.12	0.051	$0,05 \leq RMSR \leq 0,08$
RMSEA	0.079	0.52	$0,05 \leq RMSEA \leq 0,08$
Incremental Fit Index			
CFI	0.94	0.98	$0,95 \leq CFI \leq 0,97$
NNFI	0.93	0.97	$0,95 \leq NNFI \leq 0,97$
NFI	0.92	0.96	$0,95 \leq NFI \leq 0,97$

Standard coefficients, R^2 values, t values, Cronbach’s Alpha coefficients, construct reliability and variances were shown in Table 7.

Table.7. Values belonging to variables of research model

Variables	Standard Value	R^2	Error Variance	t Value	Const ruct Reliab ility	Expla natory Varia nce
PERSONAL INFLUENCE (Cronbach’s Alpha=0,871)						
Normative(Cronbach’s Alpha =0,778)					0,86	0,61
In social situations, I have the ability to alter my behavior if I feel that something else is called for.	0,70	0,49	0,78	12,31		
When I feel that the image I am portraying isn’t working, I can readily change it to something that does.	0,85	0,73	0,41	15,03		
I have trouble changing my behaviors to suit different people and in different situations*.	0,88	0,77	0,34	15,36		
I have found that I can adjust my behavior to meet the requirements of any situation in which I find myself.	0,66	0,44	0,85	11,95		
Informative (Cronbach’s Alpha =0,753)					0,82	0,61
If I have little experience with a product, I often ask my friends about the product.	0,74	0,55	0,46	10,47		
I often consult other people to help choose the best alternative available from a product class.	0,83	0,69	0,32	14,15		
I frequently gather information from my friends or family about a product before I buy.	0,76	0,58	0,51	13,48		
SELF-MONITORING (Cronbach’s Alpha =0,682)						
Self-Monitoring Ability (Cronbach’s Alpha a=0,677)					0,68	0,59
In social situations, I have the ability to alter my behavior if I feel that something else is called for.	0,67	0,46	0,45	10,38		
When I feel that the image I am portraying isn’t working, I can readily change it to something that does.	0,73	0,49	0,43	12,05		
Self-Monitoring Susceptibility (Cronbach’s Alpha =0,653)					0,60	0,35
I am often able to read people’s true emotions correctly (through their eyes).	0,67	0,45	0,51	8,05		
My powers of intuition are quite good when it comes to understanding the emotions and motives of others.	0,73	0,54	0,43	7,45		
I can usually tell when I’ve said something inappropriate by reading it in the listener’s eyes.	0,60	0,43	0,50	4,38		
STATUS CONSUMPTION (Cronbach’s Alpha =0,867)						
I would buy a product just because it has status.	0,80	0,63	0,55	10,35	0,84	0,57
I am interested in new products with status	0,85	0,73	0,39	17,31		
I would pay more for a products if it had status	0,82	0,67	0,51	16,64		
A product is more valuable to me if it has some snob appeal.	0,51	0,26	0,88	9,79		

The values belonging to construct reliability of the variables in the research model were on an acceptable level.

The relationships between personal influence and self-monitoring and status consumption were shown in Table 8.

Table.8. relations among variables of research model

Variables	Standard Value	R ²	Error Variance	t value
SELF-MONITORING ABILITY-SELF-MONITROING	0,92	0,92	0,08	5.35
SELF-MONITORING SUSCEPTIBILITY-SELF-MONITORING	0,45	0,34	0,66	4.96
INFORMATIVE-PERSONAL INFLUENCE	0,61	0,35	0,65	9,08
NORMATIVE-PERSONAL INFLUENCE	0,91	0,94	0,06	12,22
SELF-MONITORING-STATUS CONSUMPTION	0,15	0,64	0,36	2,22
PERSOANL INFLUENCE-STATÜS CONSUMPTION	0,53	0,64	0,36	7,11

As shown in Table.8 and Figure.2, personal influence and self-monitoring have an impact on status consumption. These findings show that social approval, social comparison and behaving suitably to others have an effect on status consumption. Additionally, we can say that social surroundings, particularly reference groups, affect this kind of consumption.

In the previous researches and studies on status and conspicuous consumption, it was found out that personal influence and self-monitoring had an impact on status consumption (Kilsheimer, 1993; O’Cass and McEwen, 2005; Wong, 1997). The results obtained in this research support the literature. In this case, H2 and H3 hypotheses were confirmed.

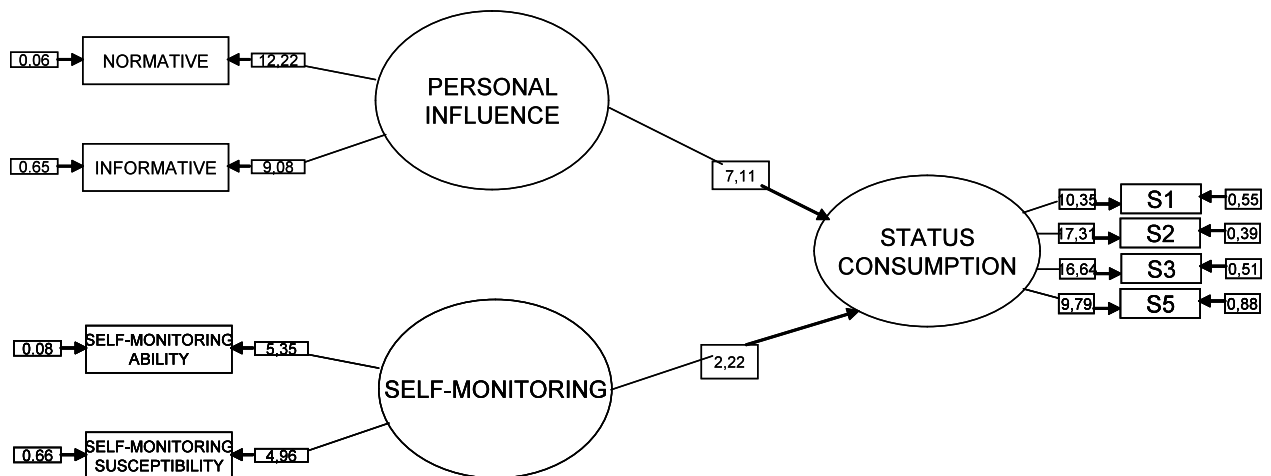


Figure 2. Research path model

Relationships between brand preferences and status consumption behaviors of respondents

Correlation analysis was conducted to determine whether there was a relationship between brand preferences and status consumption of the respondents. According to the results of the analysis, there is a significant relationship between status consumption and domestic-foreign brand preferences. In other words,

respondents with high status consumption prefer to buy foreign branded products. Thus, of the hypotheses of the study, H1 was confirmed. The results were shown in Table 9.

Table.9. Relationship between status consumption and domestic-foreign brand preferences

		Brand Preference
Status Consumption	Correlation coefficient	-0.097
	Sig	0,025*

*p<0.05

As is known, in status and conspicuous consumption, individuals benefit from the symbolic meanings of the products to give messages to the surrounding others. In brand preferences as well, symbolic meanings that brands have are determinative. Therefore, in both status and conspicuous consumption, prestige brands are preferred, and brands and products supporting social status in status consumption are preferred more. Marcoux, Filiatrault and Cheron (1997), in their study, investigated the preference levels of students for foreign branded products in their status consumption. According to the results of the research, students with a high tendency towards ostentation prefer foreign brands. O’Cass and McEwen (2005) examined prestige brand preferences both for status and conspicuous consumption. According to the results, prestige brand preference is high both for status and conspicuous consumption. The results of this study are consistent with the other studies. In status consumption, prestige and foreign brands are preferred more. Therefore, H1 hypothesis was confirmed.

CONCLUSION

In this study, the effects of personal influence and self-monitoring on status consumption were investigated. Additionally, domestic and foreign brand preferences of individuals with high status consumption were examined. According to the results, personal influence and self-monitoring have an impact on status consumption. Accordingly, the effect of social surroundings, particularly of reference groups, is high for those doing status buying. Normative and informal interaction was found to be important in communication with social surroundings. This situation shows that individuals try to be attuned to their surrounding environment by gathering information and imitating. Again, in status consumption, self-monitoring having an impact shows that they are susceptible in perceiving and adjusting the surrounding environment. At the same time, they prefer prestige and foreign brands in their brand preferences.

The following can be suggested according to the results:

Firms offering products for status consumption should concentrate on strategies that have symbolic meanings supporting social status in positioning their products because consumers doing status buying expect products to support their social status. If messages sent involve meanings of distinction, respect and status in their brand retention strategies, it will be effective for the brands to be approved. Again, personal influence will be more effective in the retention of these brands than mass media because consumers doing status buying evaluate their surroundings as an important source of information.

It was determined that prestige brands were preferred in status consumption. Domestic prestige brands are preferred in status consumption; however, foreign brands are preferred more. In this case, it will be useful for the domestic brands to compete both at home and abroad if they expand to foreign markets and become a global brand. Global brands will meet the status symbol expectations of foreign and domestic markets.

Limitations and implications

In this study, status consumption tendencies of the consumers towards domestic and foreign ready-to-wear brands were examined. When status consumption tendencies are taken into consideration for different product groups, more information can be obtained about their preferences for status consumption since, unlike conspicuous consumption, brands preferred in status consumption are not expected to be expensive. It is enough for the brand to have a symbol of status and support the ideal self of consumers. Therefore, status consumption tendencies of consumers towards inexpensive product groups and characteristics of products that are influential for this tendency can be examined.

In the study, the effect of personal influence and self-monitoring on status consumption was investigated. In the future studies to be carried out to contribute to status consumption literature, the psychographic characteristics of the consumers and the factors influential on consumers’ perception of status brands can be searched.

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APPENDIX

Table.10. Mean and Standard Deviation Values of Personal Influence Scale

Variables	Mean	Standard Deviation
NORMATIVE		
I rarely purchase the latest fashion styles until I am sure my friends approve of them.	3,1830	1,35895
It is important that others like the products and brands I buy.	3,5968	1,16546
When buying products, I generally purchase those brands that I think others will approve of.	3,4759	1,18444
If other people can see me using a product, I often purchase the brand they expect me to buy.	3,6300	1,20365
I like to know what brands make good impressions on others.	3,0508	1,25131
I achieve a sense of belonging by purchasing the same products and brands that others purchase.	3,7721	1,11156
If I want to be like someone, I often try to buy the same brands they buy.	4,0427	1,15777
I often identify with other people by purchasing the same products and brands they purchase.	3,8556	1,14873
INFORMATIVE		
To make sure I buy the right product or brand, I often observe what others are buying and using.	3,2987	1,29432
If I have little experience with a product, I often ask my friends about the product.	2,4213	1,13692
I often consult other people to help choose the best alternative available from a product class.	2,5027	1,15239
I frequently gather information from my friends or family about a product before I buy.	2,6080	1,20978

Table.11. Mean and Standard Deviation Values of Self-Monitoring Scale

Variables	Mean	Standard Deviation
SELF MONITORING ABILITY		
In social situations, I have the ability to alter my behavior if I feel that something else is called for.	2,0185	1,00642
I have the ability to control the way I come across to people, depending on the impression I wish to give them.	2,2414	1,02240
When I feel that the image I am portraying isn't working, I can readily change it to something that does.	3,1702	1,24269
I have trouble changing my behaviors to suit different people and in different situations*.	2,1524	1,22344
I have found that I can adjust my behavior to meet the requirements of any situation in which I find myself.	2,9706	1,22384
Once I know what a situation calls for, it's easy for me to regulate my actions accordingly	2,5559	1,06436
SELF MONITORING SENSITIVITY		
I am often able to read people's true emotions correctly (through their eyes).	2,1733	1,07441
In conversations, I am sensitive to even the slightest change in the facial expression of the person with whom I am conversing.	2,1640	1,10920
My powers of intuition are quite good when it comes to understanding the emotions and motives of others.	2,1878	1,10660
I can usually tell when others consider a joke to be in bad taste, even though they may laugh convincingly.	3,3008	1,35665
I can usually tell when I've said something inappropriate by reading it in the listener's eyes.	2,2361	1,10847
If someone is lying to me, I usually know that it at once from that person's manner of expression.	2,6781	1,24587

*Reversed question

Table.12 Status Consumption

Variables	Mean	Standard Deviation
I would buy a product just because it has status.	2,9800	1,2242
I am interested in new products with status	3,0088	1,1950
I would pay more for a products if it had status	3,0462	1,2395
The status of s product is irrelevant to me.*	3,5297	1,2353
A product is more valuable to me if it has some snob appeal.	3,3297	1,2945

*Reversed question

THE IMPACTS OF EXTERNAL IMAGE FORMED BY CUSTOMER PERCEPTION ON CONSUMER EMOTION AND BEHAVIOR

**Mevlüt Türk
Neslihan Derin
Şeyda Nur Seçkin**

Inonu University, Turkey

ABSTRACT

The theoretical frame of this study is restricted by corporate external image, the basic elements of it and its impacts on customer trust, customer purchasing behavior and customer loyalty. The relationship between the basic elements of external image (customer orientation, good employees, reliable and strong financial structure, product and service quality, social and environmental responsibilities) and customer emotion & behavior (customer confidence, customer loyalty and purchasing behavior) is investigated. As a result of canonical correlation analysis, statistically meaningful relationship between those is found.

Keywords: external image, customer perception, consumer behavior

INTRODUCTION

Corporate image refers to how a company is perceived and what it “stands for”. Being a mental picture to the public, the corporate image plays an important role as a strategic asset enabling firms to outperform in fierce competition (Cravens & Oliver, 2006). Today, corporate image becomes much more important when compared to the past and becomes one of the primary factors for firms to survive and outperform in today’s highly competitive work environment (Mignonac, Herrbach, & Guerrero, 2006).

Positive corporate image attracts high-qualified work force, leads investors to buy equity securities and brings new customers to the firm. Consequently, positive image that stakeholders have of the company results in increased sales and profits. If a positive image in the eyes of customers is developed they will be more willing to buy and be loyal to the company. On the other hand, a negative external image makes customers have a less tendency to interact with the company resulting in assuredly declined sales and profits (Ruth & York, 2004).

With the challenges of highly competitive work environment, firms today have to adapt themselves to changing conditions continuously and act strategically. Especially in last ten years, the external image of firms becomes much more important when compared to the past and plays an important role in success of firms (Küçük, 2005). Establishing a positive corporate image is vital for firms to survive and outperform in the market (Yurdakul, 2010) providing competitive advantage to firms. For this reason, it should be considered by firms more seriously and taken into account in business strategies as a vital issue (Köse, 2007).

LITERATURE REVIEW

EXTERNAL IMAGE FORMED BY CUSTOMER PERCEPTION

Regarding to corporate image’s increasing importance in business life, many studies about it were conducted in various countries. However, opinions of consumers were ignored in most of them and only a few studies taking their point of views into account were developed (Caruana & Ewing, 2009). Later on, in parallel with increasing importance of customers, studies in which their ideas and opinion are involved have increased.

Corporate image is a mental picture developed in minds of the stakeholders (Arıcıoğlu, Paksoy & Güleş, 2006). In other definition, it is an evaluation of firm’s competencies and resources by the public (Fuller,

Ravazzolo & Schweize, 2000). It is a perception of stakeholders of the company regarding to the firm's competency in meeting the demands and expectations (Brammer & Pavelin, 2004). Corporate image indicates perceptions, beliefs and opinions (Lemmik, Schuijf & Streukens, 2003) and is perceived by stakeholders outside the company (Kazoleas, Kim, & Moffi, 2001).

External image indicates perception developed in minds (Güzelcik, 1999:182). It is the starting point of building relationships with customers and associating messages which companies try to impose with customer perception (Aksoy & Bayramoğlu, 2008:85-96), resulting in mental picture formed by the messages sent from the company (Wiertz, & oth., 2004:424– 436). In summary, external corporate image can be defined as the sum of emotions, perceptions, beliefs and opinions regarding to the company name (Kandampully, Hu, 2007).

There are five basic factors in forming positive corporate external image (Walsh, Beatty & Shiu, 2009):

1. Customer Orientation
2. Good Employees
3. Reliable and Strong Financial Structure
4. Product and Service Quality
5. Social and Environmental Responsibilities

Customer Orientation

Customer orientation is an approach aiming to meet customer demands and expectations with high quality of products and services (Şimşek, 2000). The focus is on consumers (Rosenthal, 2007) and all the operations of firm are determined according to their needs, expectations and demands (Bolton, 2005). In customer oriented firms, the power is on customer side (Türk, 2006). If customers gain more than they pay; a strong, long term customer relationship will most likely to occur (Odabaşı, 2003).

Good Employees

Employees are face of the company (Bulut, 20003). Companies whose employees act ethically are perceived as more reliable in the eyes of consumers (Bailey, 2005). Competent, informative, kind and high-qualified employees play an important role in development of positive corporate image.

Reliable and Strong Financial Structure

Financial performance indicates the competency of the firm in taking risk for investment, its competitive ability and profitability. A reliable and financially strong firm tends to grow, make investments with lower risks and outperform in the market compared to its rivals (Karatepe, 2008).

Product & Service Quality

It is necessary for firms firstly to provide product and service quality for positive corporate image (Bakan, 2005). Customers are the ones who will evaluate it (Gürsakar, 2005). Quality is no longer a function; it is just a strategy. Since customers are the stakeholders of a company playing an important role in success of firm services or products which meet expectations and demands of customers have quality (Uyguç, 1998). Companies should target to improve quality and satisfy customers aiming to build long lasting relationships with customers (Sweeney & Swait, 2008). As a result, they can gain trust and loyalty of consumers.

Social and Environmental Responsibility

Although social and environmental responsibilities do not affect company profits in the short run apparently it is crucial for firms to have a positive corporate image which will affect company profitability in the long term (Türk, 2006). Researches indicate that customers of firms which are sensitive to social and environmental issues present more positive attitudes and loyalty towards the company (Hong, Yang & Rim, 2009).

CUSTOMER EMOTIONS AND BEHAVIORS

There are many factors affecting customer emotions and behaviors (Liou, Tzeng, 2010). As one of the factors, corporate image is a primary factor to gain consumer trust which is then exhibited through buying behavior and customer loyalty coming into the scene by repurchasing (Walsh & others, 2009:924-930).

Customer Trust

Trust is the basic element in establishment of customer relationships. Customer trust can be defined as the reliability of the firm perceived by consumers (Orth, Green, 2009) resulting in repurchasing behavior (Harris, Goode, 2004). Therefore, firms should avoid unfair and opportunist activities (Deng & Others 2009).

Repurchasing Behavior

The main aim of all the firms is to build strong, long lasting customer relationships. To achieve this, it is required to make customers present repurchasing behavior. There are some fundamental factors affecting customer repurchasing behavior: value perception developed in consumers' minds regarding to the price of product or service, customer satisfaction and product or service quality (Grace, Cass, 2005), interaction between customers and employees, service area (Grace, 2009) and finally positive corporate image (Caruana, Ewing, 2009). On the other hand, negative expressions spread from mouth to mouth related to the company and incompetency of the firm in resolving customers' problems will affect repurchasing behavior negatively (Blodgett, Granbois & Walters, 1993).

Customer Loyalty

Naturally, all companies target to gain loyal customers by meeting their expectations and demands (Gülmez, 2005). Loyalty is the conversion of positive attitude to behavior (Caruana, Ewing, 2009). Jacoby defines loyalty as a behavioral concept developed after psychological process. Customs, culture, interests and personality are some of the factors affecting customer loyalty (Srinivasan, Anderson & Ponnayolu, 2002). At the same time, customer satisfaction and trust, knowledge usage and competency in technology may be the other influential factors (Chiou, 2004). Also, customer complaints play an important role in establishment of loyalty (Bell, Luddington, 2006). If the causes of complaints are not removed; customer loyalty will be affected negatively (Wallin, 1999).

Behavioral reactions occur as a result of customers' assessment of company outputs (product, service). Customers apart from the loyal ones can be easily captured by rivals (Bloemer, Ruyter, 1998). Patronages have more advantage as compared to the customers who interact with the company only once (Chi, Gürsoy, 2009). The cost of rendering service to the loyal customers is less than gaining new customer portfolio; loyal customers are more inelastic to prices and spare more time to the company (Kumar, Shah, 2004).

METHOD

The field of application is based on customers of a hypermarket of a chain store which operates in nation-wide, employing 3650 personnel with 113 stores and 5 malls. The hypermarket stated above is built on 4500 m² sales areas with 19 cash-desk and 60 employees. The population of the research consists of the customers of hypermarket stated above. Since the size of population can't be determined exactly sampling is implemented. In case of the situations in which standard deviation of population is unknown; the size of sample can be calculated with a commonly used formula: $n = \frac{Z^2 \pi (1-\pi)}{e^2}$ (Kurtuluş, 2006: 191). Before data collection, pilot study is conducted on 50 customers. Customer loyalty is determined as approximately %50. This value is taken as the rate of population (π). In formula, Z indicates confidence level of %95 and e shows tolerance limit ($Z=1.96$, $e=0.04$). As a result, the sample size is found as 600. ($n = \frac{(1.96)^2 0.05(1-0.05)}{(0.04)^2} = 600.25$)

Systematic sampling which is used commonly in marketing researches is selected (Nakip, 2006: 212). Although the population is unknown it is determined that approximately 600 customers visit the hypermarket daily. Since we have limited time data collection is performed between the dates of 09.04.2010 and 18.04.2010. It is calculated that the hypermarket is visited by 6000 customers in ten days (N / n den $6000 / 600 = 10$). It is planned to interview with 60 customers during ten days ($600 / 10 = 60$). Data collection is performed from 8:00 a.m. to 8:00 p.m. Interview is realized with every 10th customer that completed his/her shopping. Since there are customers who are shopping frequently this point is taken into account to avoid repetition. Data collection can be performed in a shorter time but it is stated by store managers that majority of customers visit the hypermarket usually once a week. As a result, ten-day period including two weekends is selected to improve the reliability of the sample.

Data is collected through questionnaire forms designed according to likert scaling. In questionnaire form, there are 5 questions related to demographic characteristics of customers, 5 of them is related to customer orientation, 4 of them is related to good employees, 5 of them is regarded to strong and reliable financial structure, 4 of them is related to product and service quality and finally 3 of them is related to social and environmental responsibilities. There are also 9 questions about customer trust, customer buying behavior and customer loyalty (3 per each factor). Collected data is processed through "SPSS 16.0 for Windows" program and confidence analysis, frequency analysis, chi-square analysis and finally canonical correlation analysis are implemented. The findings of the study are presented by charts and tables.

APPLICATION AND FINDINGS

Confidence Analysis

Confidence analysis is conducted and confidence coefficients are calculated to achieve consistency of questions with each other and homology in measurement (Özdamar, 2002: 662). For this reason, it is benefited from Cronbach Alfa coefficient (Özdamar, 2002: 662-663) which has a higher validity in terms of statistics. Cronbach Alfa coefficient is interpreted as: 0-0,4; confident, 0,4-0,6; low confident, 0,6-0,8; considerably confident, 0,8-1,0; highly confident (Alpar, 2003: 382).

Cronbach Alfa coefficient is calculated as %92,6 indicating that the scale is highly reliable.

Table 1: Confidence Analysis

Cronbach Alfa	# of Questions
%92,6	35

Frequency Analysis

The frequency analysis regarded to the demographic characteristics of customers is shown in Table 2. Approximately half of the customers shopping from the hypermarket consist of women. The proportion of consumers who are in age of 26-35 is %33.7 and approximately %60 of them is ≤ 35 .

When we look at the marital status 1/3 of customers is single; the rest is married. In terms of educational background %45.5 of them have higher education followed by the ones having secondary education (%36.0). According to income groups, approximately half of them earn 1000 TL and below per month. %85.5 of them belongs to middle and low class of income groups. Table 2 indicates that majority of the customers have a relatively higher educational background, young and married and finally belong to low or middle class of income groups. Reliability of data collected regarding to income can be argued. Since people tend to show their incomes lower than reality it can be accepted as some of the customers presenting them having low income most probably belong to the middle class.

Table 2: Descriptive Statistics Related To Demographic Characteristics of Customers

	N	%		N	%
1. Sex			2. Age		
Female	302	50,3	25 \leq	152	25,3
Male	298	49,7	26-35	202	33,7
Total	600	100,0	36-45	136	22,7
3. Marital Status			46-55	80	13,3
Single	199	33,2	56 \geq	30	5,0
Married	401	66,8	Total	600	100,0
Total	600	100,0	5. Income (Monthly)		
4. Educational Background			1000 TL \leq	295	49,2
Primary	85	14,2	1001-2000 TL	218	36,3
Secondary	216	36,0	2001-3000 TL	60	10,0
Higher	273	45,5	3001-4000 TL	19	3,2
Master Degree	26	4,3	4001 TL \geq	8	1,3
Total	600	100,0	Total	600	100,0

Descriptive statistics related to fundamental factors of external image are shown Table 3:

Customer Orientation:

- X11: Setting value on customers
- X12: Open communication with customers
- X13: Trying to remove the cause of customer complaints and solve problems
- X14: Dealing with customers
- X15: Creating an atmosphere for customer to express his/her problems

Good Employee:

- X21: Acting in reliable manner
- X22: Politeness
- X23: High-qualified employees
- X24: Presentable employees

Reliable and Strong Financial Structure:

- X31: Being a strong firm
- X32: Outperforming in the market
- X33: Having potential to grow in the future
- X34: Being a valuable, worthy investment
- X35: Having goals and objectives regarding to the future

Product and Service Quality:

- X41: Reliability in terms of quality
- X42: Innovative services
- X43: High quality of products and services
- X44: Being in the back of goods produced and services rendered

Social and Environmental Responsibilities:

- X51: Being sensitive to environmental issues
- X52: Making sacrifice for clean environment
- X53: Supportive actions for social issues

The average value related to the fundamental factors of external image is 3.5067. When this is interpreted in Likert it can be said that it is in the middle of the scale. “Product and service quality” has the highest value of 3.6575 and “social & environmental responsibilities” has the minimum value of 3.2639.

The average value of variables of customer orientation is 3.55098. In today’s business environment in which the importance of customer orientation increases day to day it can be said that this value is very low. “Setting value on customers” has the highest value of 3.6833 and “dealing with customers” has the minimum value of 3.4233.

The average value of “good employee” is 3.59625. “Politeness” has the highest average value of 3.8117 and “high-qualified employees” has the minimum value.

The average value of “reliable and strong financial structure” is 3.41602. In this set, the maximum value belongs to the variable of “being a valuable, worthy investment” and the minimum value belongs to the variable of “outperforming in the market”.

Among the variables of “product and service quality”, the maximum value belongs to “reliability in terms of quality” and the minimum value belongs to “innovative services”.

“Social and environmental responsibilities” has the lowest average. The maximum value belongs to “sensitivity to environmental issues and the minimum one belongs to “making sacrifice for clean environment”.

Table 3: Descriptive Statistics Related To the Fundamental Factors of External Image

		Valid	Missing	Mean	St. Deviation	Minimum	Maximum
Customer Orientation	X11	600	0	3,6833	0,85885	1,00	5,00
	X12	600	0	3,4900	0,93346	1,00	5,00
	X13	600	0	3,5450	0,87134	1,00	5,00
	X14	600	0	3,4233	0,97419	1,00	5,00
	X15	600	0	3,6133	0,88419	1,00	5,00
Good Employee	X21	600	0	3,6150	0,91916	1,00	5,00
	X22	600	0	3,8117	0,86840	1,00	5,00
	X23	600	0	3,2733	0,91105	1,00	5,00
	X24	600	0	3,6850	0,94371	1,00	5,00
Strong & Reliable	X31	600	0	3,5733	1,01143	1,00	5,00
	X32	600	0	3,0067	1,08563	1,00	5,00

	X33	600	0	3,3567	1,05419	1,00	5,00
	X34	600	0	3,6117	1,06900	1,00	5,00
	X35	600	0	3,5317	0,94895	1,00	5,00
Product & Service Quality	X41	600	0	3,7583	0,86285	1,00	5,00
	X42	600	0	3,4617	0,93808	1,00	5,00
	X43	600	0	3,6983	0,91217	1,00	5,00
	X44	600	0	3,7117	0,86975	1,00	5,00
Social and Environmental Responsibilities	X51	600	0	3,3800	0,83071	1,00	5,00
	X52	600	0	3,1250	0,86059	1,00	5,00
	X53	600	0	3,2867	0,73398	1,00	5,00

Descriptive statistics related to dependent variables of customer emotions and behaviors are shown in Table 4:

Customer Loyalty:

Y11: Being a customer of the store for present as a result of positive interactions with organization

Y12: Being a customer of the store from the past

Y13: Being a loyal customer

Customer Trust:

Y21: Trusting firm

Y22: Belief in firm's honesty

Y23: Belief in firm's acting in the right manner all the time

Repurchasing Behavior:

Y31: Tendency to repurchase

Y32: Firm's being one of the places for shopping in the future

Y33: Tendency to shopping from the store in the future

The average value of variables related to customer emotions and behaviors is found as 3.61. The highest value of 3.84 belongs to "repurchasing behavior" and the minimum value of 3.34 belongs to "customer loyalty".

In the set of customer loyalty, "being a customer of the store for present as a result of positive interactions with organization" has the highest average and "being a loyal customer" has the lowest value.

The average value of customer trust is found as 3.6511. "Trusting firm" has the highest average and "belief in firm's acting in the right manner all the time" has the lowest.

The highest value belongs to "tendency to repurchase" in repurchasing behavior set. Although this value is the maximum one among all the dependent variables we can't say that it is high. The minimum value belongs to "tendency to shopping from the store in the future".

Table 4: Descriptive Statistics Related to the Variables of Customer Emotions & Behaviors

		Valid	Missing	Mean	St. Deviation	Minimum	Maximum
Customer Orientation	Y11	600	0	3,5650	1,00039	1,00	5,00
	Y12	600	0	3,3867	1,20259	1,00	5,00
	Y13	600	0	3,0650	1,20549	1,00	5,00
Customer Trust	Y21	600	0	3,7733	0,93099	1,00	5,00
	Y22	600	0	3,6717	0,93201	1,00	5,00
	Y23	600	0	3,5083	0,92087	1,00	5,00
Repurchasing Behavior	Y31	600	0	3,9250	0,83898	1,00	5,00
	Y32	600	0	3,8333	0,88139	1,00	5,00
	Y33	600	0	3,7700	0,92657	1,00	5,00

Canonical Correlation Analysis

Canonical correlation analysis is a technique which determines the relationship between dependent and independent variables (Kurtuluş, 2006: 373).

In this part, the relationship between the basic elements of external image (customer orientation, good employees, reliable and strong financial structure, product & service quality, social and environmental responsibilities) and customer emotion & behavior (customer confidence, customer loyalty and purchasing behavior) is investigated through canonical correlation analysis. It is thought that the fundamental factors of external image have an effect on customer emotions & behaviors. In this context, the fundamental factors of external image are defined as independent variables (5 sets with 21 variables) and the factors of customer emotions and behaviors as dependent variables (3 sets with 9 variables).

Canonical correlation analysis results are shown in Table 5, 6 and 7. To be readable, related tables are presented instead of all. In Table 5, core values of canonical correlation are shown. Since there are nine dependent variables in Table 5 nine canonic variables are calculated accordingly. The highest canonical correlation coefficient is found as 0.82480. The value indicating the relationship between the two sets is; $R_c \max = 0.82480$. It can be said that there is a high level of linear relationship between these two sets.

Table 5: Eigenvalues and Canonical Correlations

Root No.	Eigenvalue	Pct.	Cum. Pct.	Canon Cor.	Sq. Cor
1	2.12792	80.56435	80.56435	.82480	.68030
2	.18566	7.02936	87.59371	.39572	.15659
3	.09150	3.46415	91.05786	.28953	.08383
4	.07891	2.98766	94.04553	.27045	.07314
5	.06624	2.50802	96.55355	.24925	.06213
6	.05605	2.12195	98.67549	.23037	.05307
7	.01864	.70582	99.38131	.13528	.01830
8	.01311	.49629	99.87761	.11375	.01294
9	.00323	.12239	100.00000	.05677	.00322

It is necessary to test whether the correlation coefficient calculated is statistically meaningful or not. Three different test results are presented in Table 6 and Table 7 below. According to effect within cells analysis in Table 6 and constant effect analysis in Table 7, the level of the relationship between the dependent and independent variables is found as at 0,05.

Table 6: EFFECT WITHIN CELLS: Regression, Multivariate Tests of Significance

Test Name	Value	Approx. F	Hypoth. DF	Error DF	Sig. of
Pillais	1.14352	4.00612	189.00	5202.00	.000
Hotellings	2.64127	7.94089	189.00	5114.00	.000
Wilks	.19641	5.44351	189.00	4756.40	.000

(S = 9, M = 5 1/2, N = 284)

Table 7: EFFECT CONSTANT: Multivariate Tests of Significance

Test Name	Value	Exact F	Hypoth. DF	Error DF	Sig. of F
Pillais	.49631	26.74548	21.00	570.00	.000
Hotellings	.98536	26.74548	21.00	570.00	.000
Wilks	.50369	26.74548	21.00	570.00	.000

(S=1, M=9 1/2, N = 284)

According to the findings, there is a meaningful relationship between the external image and customer emotions and behaviors. When we look at the average values of variables we can express them as in the middle according to Likert Scale. The average value (3.61) of customer emotions and behaviors (set of dependent variables) is higher than the average value (3.51) of external image factors (independent variables). It can be said that more efforts should be made regarding to the factors of external image and thereby customer emotions and behaviors will be affected positively. In other words, efforts made related to “customer orientation”, “good employee”, “reliable and strong financial structure”, “product & service quality” and “social & environmental responsibilities” is going to create positive impacts on customer trust, loyalty and repurchasing behavior.

When we look at the average values of dependent variables customer loyalty has the minimum value. While the value of Y11 (Being a customer of the store for present as a result of positive interactions with organization) is 3,565; the value of Y12 (Being a customer of the store from the past) is 3,387 and finally the value of Y13 (Being a loyal customer) is 3,065. On the other hand, the average value of customer trust (3.65) indicates that the company should give more importance to establish trustworthy customer relationships. Among the dependent variables repurchasing behavior has the highest value. Although the average value of tendency to repurchase is low it is higher than the values of customer loyalty and trust. As the important factors influencing customer emotions and behaviors, the independent variables stated above have low average values. To increase customer loyalty and trust and finally stimulate repurchasing behavior the company should give more importance to those issues.

Among the independent variables, “product & service quality”, “good employees” and “customer orientation” have the higher values. However, the average values regarding to “good employee” is not adequate; indicating that a training program for hypermarket employees is needed. Since employees are the face of a company who interact with customers directly they play an important role in formation of external image and for this reason, more importance should be given to improvement of employee skills and qualifications.

The average values of “customer orientation” are also low indicating the necessity for the hypermarket to improve customer relationships and consider their problems or complaints professionally providing effective solutions.

While these three independent variables stated above have a positive effect on customer emotions and behaviors we can't say the same thing for “strong and reliable financial structure” and “environmental and social responsibilities”. In recent years, the sensitivity to environmental and social issues has increased significantly being an important factor in establishing positive corporate image. However, the results obtained indicate that the hypermarket is insufficient in undertaking its social and environmental responsibilities.

In this study, it becomes impossible to analyze dependent and independent variables separately. Because of the high quantity of variables and the restriction of the study, determining the relationship between these variables according to the demographic characteristics of customers and the level of this relation are decided to be investigated in another study.

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NOSTALGIC GALE ON MARKETING

Selda Başaran Alagöz
Nezahat Ekici
Mahmut Sami İşlek
Karamanoğlu Mehmetbey University, Turkey

ABSTRACT

Psychological variables, one of the many factors which affect consumers' purchasing behavior, contain an extensive field which has significant effects on consumption custom. Sentimental factors within psychological factors and nostalgia within sentimental factors can be very impressive on consumers' choice. Studies on this issue show that nostalgic factors can affect consumers' choice lifelong.

Nostalgia is defined as yearning for yesterday. Especially with the help of globalization, social and cultural structure is changing rapidly in all over the world and the societies which have to adapt these rapid changes begin to yearn for the past and develop a different perspective to products which hold the traces of the past.

Retro-marketing is in use to emphasize the yearning for yesterday by revealing that the product is trustworthy and essential. Products either conduct a sentimental relation by reminding and emphasizing the past or reveal the idea of trust and essentiality by being on since the time remembered. In this respect, many marketing executives try to differentiate the products by using the nostalgia element and lead the consumers' choices towards their products.

In this study, nostalgia element and the effects of this element on consumers and consumers' purchasing behavior will be examined.

Key Words: *Nostalgia, Consumers' Purchasing Customs, Psychological Factors, Retro Products, Nostalgia and Marketing, Retro-marketing*

INTRODUCTION

With globalization, social and cultural structure is rapidly changing. Societies which are obliged to adapt this rapid change begin to yearn for the past and develop a positive view point to products and services which have traces of yesterday. There, retro marketing develops a distinctive aspect by taking the advantage of people's power of "yearning for yesterday" emotion. Retro marketing is targeting the consumers who are curious about yesterday, trying to conduct a relationship between the past and present and who had these products in early days, lived at those times and also yearn for these times.

Products, brands or advertisements which were used in the past are targeting the consumers sometimes just as it was and sometimes with updating by getting included in the marketing process.

Nostalgia

The word "nostalgia" is derived from two Greek roots: "nostos" meaning to "return to one's native land" and "algos" which refers to "pain, suffering, or grief". Generally, nostalgia is defined as "yearning for the past", but it is also defined as "the pain or grief derived from unsatisfied return desire". (Havlena and Holak, 1991: 323)

Nostalgia may be based on the individuals' own experiences, but it is also possible that individuals that had never experienced the said past can be curious and have yearning for those times with stories or other data touching the past. (Davis, 1979: 1). Yearning yesterday with people's own individual experiences is defined as real nostalgia. Real nostalgia is about arousing the memories of individual, experienced in the past. Sometimes, a photo, a nice flavor or a formerly popular song can arouse emotions and excitements of the past by taking away the individual to the past. Nevertheless, historical nostalgia is defined as to feel yearning and curiosity due to the

historical information and expressions of near past true life stories and not depend on individuals' own experiences (Stern, 1992 : 389). In historical nostalgia, there is a phenomenon relative to time period that the individual had not experienced. With the information obtained from the data based on the history, a longing for that time and also a curiosity, since the person did not see the past times, are in question. Historical nostalgia can be conveyed from people living in that time and from constantly occurring fashion as well. Bell-bottomed pants, hair models of former stars and former automobile models that have been adjusted from the past to the present time can be the examples of this.

Both real and historical nostalgia are experienced individually. Individuals who have the same or similar social and cultural structure have common elements that they yearn concerning the past. This situation has revealed the concept of social nostalgia (Davis, 1979:103). In other words, there is a common yearning for the people who have common history and culture (Davis, 1979: 101). For Turkish society, old feasts and old Ramadans are always special and carry strong nostalgic emotions. The yearning of those who never witnessed these feasts called as 'old' is a stunning example of social nostalgia. Those who never listened to a canto but yearn for it or those who never dance tango but like the tango are good examples of social nostalgia.

Essentially, social nostalgia is more likely the desire of living the past with the future than the desire of living the past. This situation could be defined as the dreamed past or the fact of becoming real by transferring the past to the present (Kayaman and Armutlu, 2003 : 5).

The Viewpoints of the Consumer to Nostalgia and Nostalgic Products

Nowadays, marketing executives are making so much effort on directing rapidly changing consumer preference. Marketing executives who realized that nostalgia is gradually rising in this effort give a journey to consumers' yesterday or use the popular culture elements that reminds them of their past. Nostalgic elements which affect consumers' preferences most are perfume or belongings of people's younger times, hometown or images relative to hometown, turning points of lives, a present from a very loved person (Eser, 2007: 125).

Postmodern societies are the marketplaces where products comprise so many things. Consumers are one within constantly changing music, life-style and fashion (Yeygel, 2006 : 207).

The base of retro marketing is the postmodern person. Postmodern individuals do not want to think about the future due to the fact that future is uncertain. Postmodernism is in the side of connecting to the past and carrying the past to the present.

The postmodern consumer desires different themes, past and future and to have an experience without having commitment with anyone.

Present day postmodern consumers only adopt nostalgic items which have common and familiar components and also which are not apart from the past very easily (Soyer, 2007). Contents which are combined with yesterday's positive memories and today and future are introduced to consumers and consequently the preferences are being directed.

Postmodern individual who gives so much importance to sensuality and social relationship wants to live yesterday and tomorrow at now and both together. While modernism is heading for the future, postmodernism generally focuses on the past. The desire of living yesterday and tomorrow both together causes to discover traditional components again. This situation exerts some opportunities concerning marketing management. Communication campaigns which pay importance to the past, revitalizing of old and forgotten brands by customizing to present day, products and advertisements that were produced in a nostalgic way can be good samples (Odabaşı, 2004: 61).

Essentially, postmodern societies are indecisive, non-stylized and unclassified. They get together by sharing the passions and emotions. They are more likely fluid structured and symbolic rituals are highly important for them (Cova and Cova, 2001: 5). Because, it may be said that symbolic features of products are much more important than products' functional features for postmodern consumers.

Researches that made before show that consumer is not only an individual who behaves rationally, but also emotional structure of them plays important role on purchasing process. O'Shaugnessy states the effect of emotions on purchasing behavior as follows: "Emotions may motivate the behaviors; it may highlight something, lead the preferences and strengthen other drives. Therefore, social drive which is about keeping up with the times is established by the pride which is coming from exhibiting the things individual have. When

considered from this point of view, it is seen that present time consumers perceive nostalgic movements as fashion and follow these movements to propound the differences of selves (Altunışık and Çallı, 2004:235).

In addition to this, the postmodern consumer is open to surrealistic simulations to exert the reality. The surrealism concept is the concept which uses the power of simulation in determined reality. With imagination, any component which is simulated to the past can be re-generated. Simulation is the reproduction of default object as real. Today, companies are redefining the roles of man and woman in the society through commercials and advertisements and these definitions are accepted by consumers in a high percentage. It is possible to give examples about exerting a new reality in advertisements. For instance, in margarine commercials, as well as the functional values of the product, symbolic values like keeping younger, providing health, fitness and dynamism are emphasized. These new meanings present a new reality as though it was like that and they are accepted. These new values are defined as the connection value of a certain brand. In present time, cafes and restaurants are being reconstructed in terms of architecture with appropriation of old time alike, for the purpose of tourism places are constituted just like their original and it is provided that people have experiences concerning to their own past.

With this respect, the number of consumers who give importance to symbolic features like pleasure and comfort and etc. rather than functional features has increased and, surrealistic perceptions which get consumers to accept take the place of rational reality. Besides, it should be emphasized that except from the product's component postmodern consumers give importance to design and style of the product as well.

Nostalgia and Marketing

In marketing, nostalgia is in use to emphasize yearning for the past by revealing the perception that the product is reliable and deeply rooted. With emphasizing and reminding of the past role of the product, consumers connect an emotional relationship with the product, and also the sustaining of the product life from past to present exerts the idea of being deep rooted and reliable.

While nostalgia makes contact with the past, it should also reduce the sense of losing. For this reason, the product should be defined as a tool to remind the past (Eser, 2007 : 120). First of all, when a consumer buys or consumes the products which can make them feel the original senses, the sense of losing will be reduced. Here, if living the past again was possible, perhaps the consumer would not or never buy this product. However, the sense of losing dispatches people to buy something. For instance; people that never used copper coffeepot are using copper coffeepot in present time and people who never watched Karagoz play in his/her childhood are willing to watch these plays.

Secondary, if the experience has existed and remembered as nice, the sense of losing would be softer. In these kinds of situations, memories should be aroused by happiness content messages which are not so emotional. In the third situation, nostalgic component is not directly related to targeted consumer. In this situation, probably the sense of losing would not be so intense. Consumers will be attracted by the messages that remind of very distant past.

Nostalgia distinctly appeals directly to individual experience. The focus of marketers is generally individual nostalgia which is directly targeting the individual experience. The best way to stimulate individual nostalgia is to make people to live their real experience which are from their younger times again. For living the real experience again, middle-aged and old people should be targeted, because people in these age groups want their children or grand children also to experience the same things that they already did when they were young.

Even though nostalgia is related to age, it shows variability psychologically. The sense of nostalgia is valid for the consumers who value the past time more than present time.

It should be considered that the average of age is gradually increasing, namely the world population is getting older. Thus, while physical needs of these consumers are met, emotional needs are also satisfied. There, middle-aged and old people who are yearning for yesterday and want to introduce the components that they want to remind to new generation are targeted.

Postmodern consumers are sentimental and in pursuit of a social relation. So, they have a positive look to nostalgic products to experience old beauties again.

In this respect, components like brand name, logo, emblem, packaging, advertisement, advertisement message, etc. which are based on the past are introduced to the consumers with the brand image that the product

comes from the past till the present time. Products introduced to market in this way provide an additional value to the consumers and also arouse the memories.

Currently, brands that have nostalgic value are taking advantage of the situation and introduce nostalgic products at special days or their own establishment day. For instance; Arçelik – one of the biggest households appliances producer in Turkey – introduced similar designs to the models which are produced in 1955 in 50. anniversary of its establishment (www.arcelik.com.tr).

Reusing the marketing mix which was used yesterday is defined as brand heritage (Otay, 2008 : 34). Brand heritage includes former packaging, color, slogan, music and commercials of the nostalgic product. Brands that have such a long and glorious past have strong relations with consumers.

As is mentioned before; nostalgic senses can be based on individual experiences, arousals and common past. People that never experienced the time nostalgic product calls attention can impose a meaning concerning the past. As a matter of fact, people still continue to buy their roasted coffee which is their fathers' or grandfathers' roasted coffee brand – Kurukahveci Mehmet Efendi – and buy their traditional candies which have the brand Ali Muhiddin Hacı Bekir and also they all continue to eat fish sandwich at Bosphorus (www.hacibekir.com, www.mehmetefendi.com). All these activities have a nostalgic value and a sense for Turkish society.

Brown, (1999) who defines retro products' categories like retro, repro and retro – repro states these concepts as follows. Retro is defined as combination of old and new by using the old style and new technology. There, nostalgic design is produced with modern technology. Especially, it is indispensable for technological products. For instance; Volkswagen New Beetle series combined the old design and new technology in this manner. This situation creates to separate values to Beetle enthusiasts. Beetle enthusiasts have the chance to have the design that they yearn and never give up and also they have comfortable and substantial car and do not discard the technological standards for this pleasure. Again, radio and televisions which have nostalgic appearances and Arçelik's nostalgic household appliances can be good samples. Electrolux inspired by Halloween and design "Ergorapido" vacuum cleaner by regenerating the popular TV series "Bewitched" in 1960s is the product preferred by consumers who want to make a practical cleaning "just like a little nose act" (www.electrolux.com). The product was introduced to the market in sand colored, fuchsia and orange color preferences. Samantha who is the witch character in "Bewitched" TV series was used and be successful by knitwear company which has a brand name as "Samantha" and emblem as a witch flying with a broom. Another example of nostalgic products is Çamlıca fizzy drink which maintains its presence since 1947. Since 1960s, it has been under the attack of coke but it is preferred by consumers who are 40 years old or more. Company executives state that consumers find the aura of nostalgia with classical bottle and aura of present time with new packaging. Executives also state that this situation increased the sale in the percentage of 15 – 20 %. Besides, they indicate that children consumers prefer to drink coke rather than Çamlıca fizzy drink but they hope that children will take their parents as an example and therefore, sales will be increased more.

Repro products are produced stick to its original as much as possible. However, this is not appropriate for all sorts of products. For instance; technologically intense products can lose the competition power if they cannot reach the level of current technology. This is a method in use of restoration of old constructions, production of furniture and carpet, producing copper and earthenware kitchen appliances. Besides, in special collections for arousing past times' wearing styles, fashion designers stand by to their originals as much as possible. For instance; in Atatürk's clothes collection inspired by Atatürk's photos, fabric is produced with the same color, figure and texture. German brand Bosch produced the refrigerator as "Classic Edition" which was first produced in 1933 (www.bosch.com). Refrigerator was introduced to the market with different colors and sizes. It has original handmade wooden parts inside. The product is generally preferred by advertiser or architectures to use just for decoration or to place some beverages in their offices or houses.

Retro – repro is implemented by leaning a product on nostalgic senses during the first entrance to the market. Architectural constructions can be a good example for this.

There are four statements that are shown as causes of using retro marketing (Brown, 1999: 366-369). First, companies are turning back to the old one, if they have failure at the new product. Secondary, consumers prefer retro products and the preference is in this direction. Third is the necessity of leaning to the past as a sociological effect of rising of urbanization. Finally, the forth statement is proneness of back to the past.

From the beginning of 1990s, interest about yesterday has been increased in Turkey. This situation is understood by increasing the number of memory books and increasing interest on historical constructions and streets (Terzioğlu, 2010 : 56). Besides, the situation of old pop songs' becoming popular and movies that never

become old breaking records in theaters can be good example of this. The movie of “Hababam Sınıfı” which is known by everybody – even its characters are very well known – was shot again. Shooting old movies again is a kind of situation that is seen quite often.

As it is seen, retro marketing is a very important competition tool. It is assumed that – with the effect of rapid changing – the importance of it will increase in future.

To enter to the market, introducing the old and nostalgic product is sometimes much easier than introducing a new product (Lau,1997 : 28). This understanding is similar to the relationship marketing’s understanding of giving more importance to the customer that the company already has. Due to the fact that the relationship marketing is related to create new values with the customer who already has a relation with the company rather than targeting the new customers, we can say that it has a retro focus understanding. Retro is not a different form of modern marketing, but it is an essential form of marketing (Brown, 1999 : 371). It is relaxing to know that a product was useful in the past both for buyer and seller. However, exaggerating retro product unconsciously makes the product not attractive but repulsive.

CONCLUSION

Nostalgia is an important issue that attracts the attention of marketing executives. There are some different dimensions that should be taken into account while evaluating the concept of nostalgia in terms of marketing. One of them is that nostalgia gives the product the image of being deeply rooted and trustworthy. Companies which sustain their life for a long time use the statement of “since ...” proudly. There, the opinion of “if the company sustains its life for a long time, so it is a company that earns the consumers trust” is predominant. In other dimension, yearning for yesterday is emphasized. This situation, namely yearning for yesterday situation is a very common thing for present time consumers. The reality that the world is changing rapidly and consumers’ keeping up with this rapid change make consumers to yearn and value it. This circumstance is a big chance for the marketing executives who start off with nostalgia.

Nowadays, consumers have numerous product options. Companies introduce these products to the markets with the options of different functions, designs and colors with the technology which is developing more and more in every single day. Additionally, these companies are being watched and imitated by the competitors immediately. In this respect, to provide a sustainable competitive advantage, offering a different value is needed.

Offering the past with related to today to present day consumers who want to implement their past and future dreams now leads their preferences and provides an important competitive advantage to the company.

Consumers personalities’ reflection to products or services and correspond to his/her identity and providing a lifestyle to the consumer are very important added values for present day consumers. Nostalgia is seen as one of these important elements that provide these added values.

It is assumed that the numbers of the companies which introduce values to its consumers by arousing the ‘yesterday’ for young consumers today and reminding of the past for the old and middle-aged consumers will be increased in near future.

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SALES PERSONS' WORK METHODS INFLUENCE ON CUSTOMER SATISFACTION AND ORGANISATION ACTIVITIES

Katri Jakosuo
Lahti University of Applied Sciences,
Faculty of Tourism and Hospitality

ABSTRACT

Service quality ideology emphasises the meaning of good services and the significance of professional personnel. Along with this ideology, the relationship between personnel and customer is one of the most important factors affecting estimations of service quality. The purpose of this paper is to ascertain how personnel work methods influence a customer's satisfaction.

The analysis is based on a customer satisfaction survey (n=40,692), and a personnel satisfaction survey (n=1,507) from the year 2000 carried out by Finland Post (today Itella). In this study I compare post offices in which customer satisfaction is particularly high (n=10) and post offices wherein customer satisfaction is particularly low (n=10). The results of the analysis were complemented by interviews with five service experts in spring 2010.

The main finding of the research is that those post offices in which customer satisfaction is particularly high have aimed at certain methods of procedure which are mutually directed at customer satisfaction. Also, target-oriented and dexterous activity, the quality of the supervisor's work, openness and experience of working under a fair amount of pressure are typical of these post offices. In the future, the organisations will be able to improve their procedures by checking that all employees know and understand the organisation's targets and their own job descriptions. It is also important to encourage employees to work together and monitor how employees treat the customers.

INTRODUCTION

Ongoing global regression affects an organisation's operational environment. In this situation it is important to monitor costs and take care of customers. Customer service is one area where different organisations can compete and where they can develop a competitive advantage. The service-oriented organisational culture creates higher value and a better result.

The purpose of this paper is to ascertain how personnel work methods influence a customer's satisfaction. The article proceeds in the following manner. First, I briefly review the literature regarding service quality and service innovations. Second, I analyse via quantitative and qualitative data how personnel work methods influence a customer's satisfaction. In the analysis, I compare post offices in which customer satisfaction is particularly high and post offices wherein customer satisfaction is particularly low. Finally, I present the implications and limitations of the research.

LITERATURE REVIEW

Connections between Job Satisfaction and Customer Service Quality

The service quality ideology emphasises the meaning of good services and the significance of professional personnel. Along with this quality ideology, the role of the personnel is becoming more significant. The relationship between the personnel and the customer is one of the most important factors affecting estimations of service quality. In most cases, services are delivered during the interaction between customers and employees. Thus employees' attitudes and behaviours towards customers affect how customers perceive service quality and how satisfied they are. Skilled and professional personnel are considered the essential resources and a strategically competitive advantage for organisations. (Buzzell & Gale 1987; Bowen & Lawer 1992; Heskett,

Jones, Loveman, Sasser & Schlesinger 1994; Zeithaml, Berry & Parasuraman 1996; Chance & Green 2001; Román & Ruiz 2005.) Some researchers even claim that the personnel are one of the most important resources of any organisation. (Ulrich 1997; Ganesh, Arnold & Reynolds 2000; Farrell, Souchon & Durden 2001.) Especially in service sector is the role of the personnel important, because their actions affect customer satisfaction and an organisation's profitability: job satisfaction is the mainstay of customer-oriented behaviour, and satisfied workers provide better service for their customers (Saura, Contrí, Taulet & Velázquez 2005). Also, it has been observed in Finnish quality research that the personnel significantly affect the way in which customers evaluate the quality of service (Jakosuo 2002; 2005).

Thus managing the customer relationship also means monitoring how employees treat the customers. According Kaplan and Norton (1996; 2001; 2004), without understanding the organisation's vision and strategy, employees cannot adapt their work to contribute to effective strategy implementation.

Like service in general, the quality of service is also quite difficult to describe. Simplistically, we can say that the quality of service is based on the customer's experience, that is, what s/he gets (technical quality) and how s/he experiences the service process (functional quality) (Grönroos 1990; 2009, Jakosuo 2002). Usually customers' evaluations of the quality of service are based on many different factors. During the service process they normally evaluate the quality of interaction, how long they must queue and what kind of premises the organisation has. Further, the organisation's corporate image effects a customer's willingness to use services. This business image is build upon what the customer's experience of the business is. Even though the organisation's top management creates the outward prerequisites, the personnel can affect the outcome of the service process.

The quality of interaction is built upon the customer's experience, which in turn depends on how the personnel behave, what their attitude towards work and customer service is, how willing they are to serve customers and how well they are able to co-operate (Grönroos 1990; 2000; Jakosuo 2002). As we shall see, the quality of interaction is composed of those things which are related to an organisation's culture and the behaviour of its personnel.

The qualities of the physical resources are composed of elements in the service production process and those products that the organisation offers its customers. These resources consist of, for example, goods, the physical environment, machines, business premises, furnishing and clarity of signs. Although the personnel cannot normally affect an organisation's physical resources, they have the responsibility of ensuring the tidiness of the service points (Jakosuo 2002; 2005). Equally, when we consider the availability of a service, the personnel cannot affect what the location of a service with regard to transport facilities will be, but they can affect the length of time the customer must queue.

Previous studies have found that the way the organisation treats employees and puts the emphasis on customers, affects the feelings and attitudes of employees, and their ability to deliver service quality. The service-oriented organisational culture creates higher value and a better result (Saura, Contrí, Taulet & Velázquez 2005; Little & Dean 2006).

A supervisor's actions are also significant. The supervisor's actions have a significant influence on the employees' commitment and ability to provide high quality service. The supervisor who acts as a role model, builds employee self-confidence and enhances employee satisfaction. If the supervisors do have a clear vision, then usually job satisfaction in the work environment and customer satisfaction will be greater (Kantabutra & Avery 2006; Little & Dean 2006). Yoon, Seo and Yoon (2004) found that the degree of supervisory support influences the employee's motivation, job satisfaction and performance. They also found that the employees' cognitive appraisals of customers' active participation in the service delivery process have a direct, positive impact on their job satisfaction and service efforts, and this in turn influences the customer's perception of employee service quality.

According Emery and Barker (2007, 93), in successful teams workers have a high degree of responsibility, authority for making day-to-day decisions in areas such as tasks, assignments, training, work methods, quality control and problem solving. Team work has been found to increase job satisfaction and decrease employee turnover. The commitment of the team is important, because it has been shown that team commitment translates into a willingness to help co-workers and an increase in job performance. Employees who are committed are also less likely to change employer and require less time-consuming and costly supervision. Allred (2001, 9) emphasises that it is very difficult to create high levels of external customer satisfaction without equivalent levels of internal customer satisfaction.

Practices and Procedures as Service Innovations

The definition of innovation is hard to pin down. Innovation can be an idea, a practice or an object that is perceived as new. Also, an innovation can be an old idea in a new application or exploitation used as a new method of production or product handling. Innovations can incorporate or adopt new technology for improving products, services or/and processes. Innovations can be so-called marketing innovations, which introduce new marketing methods for products, or so-called organisational innovation, which is linked to practices, workplace organisations or external relations. (Orange, Elliman, Kor & Tassabehji 2007, 244–245.)

According to Lin, Chen and Chiu (2010, 114) there are two key aspects of innovation: the degree of innovation and the scope of innovation. The degree of innovation varies from radical innovation to incremental innovation. Radical innovation is a dramatic breakthrough in new areas and incremental innovation modifies current products, services or technology. The scope of innovation capability consists of both technical and administrative innovation. Technical innovations include products, marketing, services and the technology used to produce products, product sales or render services directly related to the basic work activity of an organisation. Administrative innovation is related to organisational structure and administrative processes. These are indirectly related to the basic work activity of the organisation and are more directly related to its management. Snyder and Duarte (2003) emphasises that innovation should create a new, better product or service that offers something valuable for customers and a sustainable competitive advantage for the supplier.

Service sector innovations can relate to different practices and procedures. Den Hertog (2000) proposes five patterns for service innovations. These are 1) supplier-dominated innovation, 2) innovation in services, 3) client-led innovation, 4) innovation through services and 5) paradigmatic innovation. Thus, service sector innovations can fluctuate from environmentally friendly banking services to facility management of commercial centres. According to Allred (2001), for example in Browning Company innovations were linked into the activities. The company improved its activities and profit, that is, organised specific product and service training for employees and developed new procedures which improved customer satisfaction (e.g. all customer orders would be imported directly into the ordering system and all incoming calls would be answered within ten seconds).

Lin, Chen and Chiu (2010, 116) emphasise that customer involvement has a positive effect on product, process, administrative and marketing innovations. The organisations which are more customer-oriented than their competitors are more capable of understanding and forecasting the changes in future markets.

According to service quality theories and innovation theories, the personnel's work methods influence customer satisfaction quality. One way organisations can increase their competitiveness is by improving the work methods. In this study I shall try to discover if there are any features which are common to those post offices in which customer service quality can be described as quite excellent.

DATA AND METHODS

Themes typical of personnel surveys are, for example, motivation, professional skills, the physical environment, management, a supervisor's actions and rewarding (Staines & Quinn 1979; Ang & Soh 1997; Morrel-Samuel 2002; Rollison & Broadfield 2002; Hampton & Hampton 2004). Customer satisfaction surveys usually measure a service point's physical resources, personnel kindness and professional skills, corporate image and waiting times (Parasuraman, Berry & Zeithaml 1991; Zeithaml, Berry & Parasuraman 1993; Jakosuo 2002; 2005). These themes were included in Finland Post's customer satisfaction surveys (Service Quality Indicator) and personnel satisfaction surveys (Personnel Inquiry).

The analyses are based on post office customer feedback and Finland Post's Personnel Inquiry from the year 2000 and interviews from the year 2010. The customer material had been supplemented by post office customer feedback from spring 2000 (n=40,692), while the personnel material comprised Finland Post's Counter Services personnel research in autumn 2000 (n=1,507). This study considered of only Finland Post's own post offices, and not other postal agencies. I augmented the results of this analysis by interviewing five service experts in spring 2010. The interviewees represented different fields in the service sector (e.g. management, development and education) and different regions (Uusimaa and Päijät-Häme).

Once a year Finland Post measures how satisfied post office customers are. This survey is called the Service Quality Indicator. By answering this survey, customers can contribute to the development of the Post's services.

In the year 2000 all post offices owned by Finland Post and the 300 biggest agencies took part in the survey. The inquiry was based on 12 questions. These questions considered the quality of customer service, such as interaction, the quality of actions and physical resources. By answering this survey, personnel could contribute to the development of their work. In the year 2000 the inquiry was based on 93 questions. These questions considered such areas as work climate, the Post’s image as company and employer, leadership and management.

For this research the postal codes taken from the observations were used for connecting the data (Figure 1).

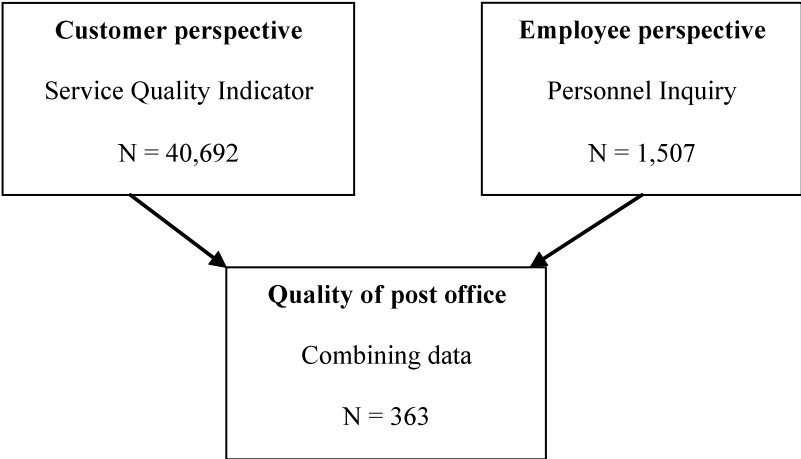


FIGURE 1. THE COMBINING OF CUSTOMER SATISFACTION DATA AND PERSONNEL SATISFACTION DATA

Here I took into account only those post offices for which the results of customer satisfaction surveys and personnel satisfaction surveys were available (n=363) (Table 1). The Personnel Inquiry was based on structured statements on a scale of one to seven (1 = totally disagree, 7 = totally agree and 4 = neither agree nor disagree). The Service Quality Indicator measures level of service on the scale: excellent (5), very good (4), good (3), satisfactory (2) and poor (1).

TABLE 1. STRUCTURE OF THE COMBINING DATA MATRIX (N=363)

Personnel Inquiry		Service Quality Indicator		Background questions		
Q1... (mean)	...Q93 (mean)	Q1... (mean)	...Q12 (mean)	personnel (n)	customers (n)	postcode
1. post office information						FIN-00100
.
.
.
363. post office information						FIN-99980

After data connection, I made a sampling based on the offices’ customer satisfaction results. First, I calculated the general customer satisfaction index for each post office and then I sampled the ten best and the ten weakest post offices. This grouping was based on a mean which was determined from the Service Quality Indicator’s questions 1–11. In this research, I did not take question 12 into consideration because it did not measure the post office’s internal activities. In this study I concentrated only on those customer service factors which the post office personnel can influence.

RESULTS

The Analysis of Quantitative Data

In Figure 2 it can be seen that in customer satisfaction, the biggest differences were related to the post offices' physical resources (Q7), smoothness of carrying on business (Q10) and swiftness and efficiency of service (Q5). The difference between the best and weakest post offices was the smallest in that question which measured Finland Post's image (Q12). It is noteworthy that in this study those factors which describe the interaction between sales persons, such as the smoothness of doing business and the office's general appearance and tidiness, are high. This result suggests that in the weakest post offices the quality of the individual sales person is quite good, but teamwork between different sales persons needs to be developed.

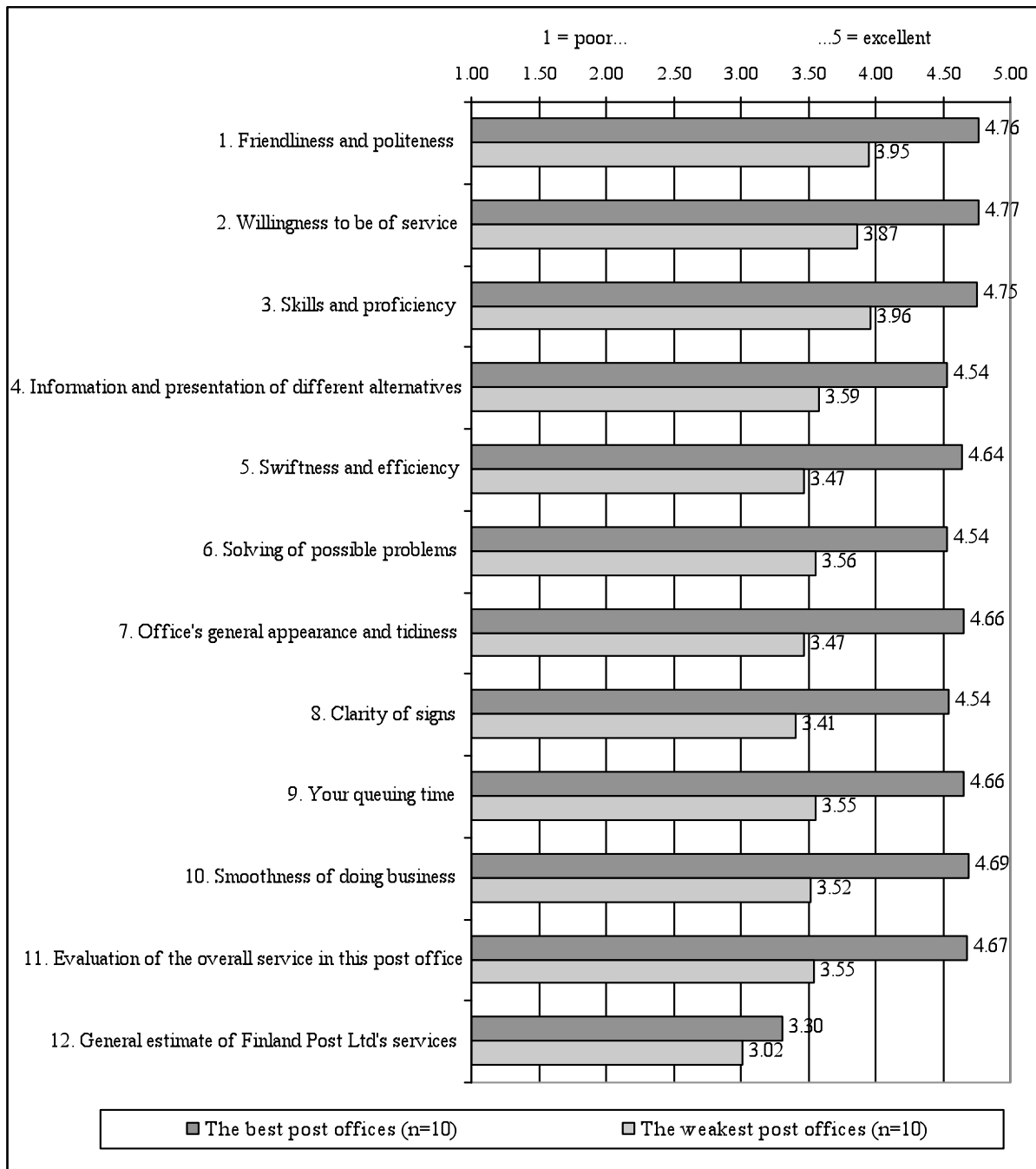


FIGURE 2. CUSTOMER SATISFACTION: A COMPARISON BETWEEN THE BEST POST OFFICES AND THE WEAKEST POST OFFICES

Next, I tried to establish those Personnel Inquiry variables which distinguish the best offices from the weakest. In this analysis, I took into account only those Personnel Inquiry questions in which the differences between different variables were the highest. The selection criteria were the differentials between the best offices' scores and the weakest offices' scores, which must be at least 0.50.

According to the results, the best post offices' personnel feel that their work unit operates smoothly and the quality of action is good (Table 2). It is interesting that in the best post offices, the personnel critically evaluate those questions which measure the quality of a supervisor's actions and Finland Post's employer and corporate image. The differences between the best and the weakest post offices are the clearest in those questions which measure the work unit's actions and quality of actions.

TABLE 2. STRENGTHS OF THE BEST POST OFFICES

Personnel Inquiry questions	Difference *
Q10. Our unit adheres to established methods	1.08
Q16. Our rewarding promotes initiative and responsible action	0.98
Q4. The work climate is good	0.88
Q11. Our methods support Post' targets and are parallel with other units	0.83
Q46. Amount of work stress is reasonable	0.81
Q65. We react quickly and flexibly to customers' requirements	0.77
Q18. Our unit goals support company goals	0.74
Q13. Our work is focused on reaching our targets	0.73
Q8. We have a good chance of learning from others' behaviour	0.70
Q5. We handle disagreements constructively	0.65
Q64. The quality of work arrangements is good	0.64
Q9. Different groups can work together while not seeking their own interests	0.59
Q7. I can easily obtain all the information I need in my work	0.55
Q89. I know the bases of rewards	0.54

* In this table the score differences between the best and weakest post offices have been calculated. For example: the best post offices Q10 (mean 5.70) - the weakest post offices Q10 (mean 4.62) = difference between means is 1.08.

In the best post offices, the personnel feel that the work climate is good (Q4), rewarding systems promote initiative and responsible action (Q16) and all adhere to established methods (Q10). It is typical that in these post offices employees can easily obtain all the information they need at work (Q7), different groups work together and they do not seek their own interests (Q9), possible conflicts are handled constructively (Q5), and people have a chance to learn from the behaviour of others (Q8). Also, target-oriented and parallel activity is usual in these post offices (Q11 and Q13).

In those questions which measure the quality of activity, respondents are especially satisfied with work arrangements (Q64) and methods through which they can react quickly and flexibly to customer needs (Q65). Why then are the personnel satisfied with their work arrangements? One explanation might be that in the best post offices, the personnel's view is that the amount of work stress is reasonable (Q46). They also understand the bases for rewarding, unlike the personnel in the weakest post offices (Q89).

In Table 3 it can be seen that in the best post offices the personnel evaluate critically those questions which measure the quality of a supervisor's action, and discussion of development (Q40, Q49, Q52, Q53, Q56, Q72, Q73 and Q76). In addition, these employees take a critical view of the Post's future (Q24) and statements that Finland Post is a successful company (Q23) and a good place to work (Q26).

TABLE 3. WEAKNESSES OF THE BEST POST OFFICES

Personnel Inquiry questions	Difference*
Q72. Supervisor know my educational and developmental needs	-1.70
Q24. I trust in the Post's future	-1.09
Q40. I have enough information to evaluate performance	-1.03
Q73. The development discussion with my supervisor is useful	-0.77
Q35. The Post's top management respects employees	-0.75
Q23. The Post is a successful company	-0.75
Q56. Supervisor tell us how to obtain our targets	-0.75
Q41. I get acknowledgement and feedback in my work	-0.66
Q53. I get feedback from my superior	-0.61
Q49. I have an open relationship with my superior	-0.59
Q76. My supervisor tells me about and clarifies my targets	-0.54
Q26. The Post is a good place to work	-0.54
Q52. My supervisor gives me acknowledgement	-0.53

* In this table the score differences between the best and weakest post offices have been calculated. For example: the best post offices Q73 (mean 2.92) - the weakest post offices Q73 (mean 4.62) = the difference between means is -1.70.

These results confirm earlier studies: high customer satisfaction seems related more to a post office's internal quality than to its external quality (Jakosuo 2002). For example, the critical evaluations of Finland Post as an employer do not have a negative influence on customer service quality. High customer satisfaction seems to be more linked to the post office's internal quality of action than to the Post's employer image. It is interesting to bear in mind that in this study the supervisor's actions do not much influence customer satisfaction quality. One explanation might be found in the construction of the data. Over 90 per cent of Finland Post's salespersons have worked over 11 years for Finland Post. This means that they are professionals who do not need the supervisor's guidance as much as their younger colleagues.

The Analysis of Qualitative Data

After the qualitative data analysis, I conducted five interviews in which I tried to identify how organisations can improve their procedures. In the interviews my aim was to discover how organisations can help employees to adhere to established methods, how organisations can help employees to learn from others and motivate them to work together without seeking their own interests. I was also interested in their opinions about information and rewarding. These themes were based on the results of the quantitative data.

According to the findings from the interviews, increasing interaction between different employee groups is one way of helping employees to adhere to the established methods. At the work places there are two key aspects of interaction: the degree of interaction and the scope of interaction. It is very important that interaction from the top down functions properly and the organisation culture supports an attitude of receptiveness. If the organisational culture is open and healthy, possible conflicts can be handled constructively together. Successful work units confer together and reach a common, shared understanding of what the organisation's targets and processes mean to the unit. It is very difficult to provide a high level and homogeneous customer service without a common, shared view.

Organisations can enhance the way in which employees learn from the behaviour of others so that clear targets and understandable indicators may be established. Also, it is important to encourage employees to continuously improve their service to customers. Learning one another is linked to the employee's motivation and satisfaction. If employees are unmotivated and dissatisfied, they will not usually be prepared to share their know-how. According to the findings from the interviews, organisations can motivate different groups to work together without seeking their own interests, thus setting a clear vision, making clear job descriptions and providing attainable targets. Further, it is important for the monitoring to be continuous and for the organisation culture to reward success.

The interviewees emphasised the important of information. Employees which work on routine tasks do not have much time to read messages and guidelines. Therefore, the length of the text must be short and the content of the message clear and unambiguous. The service sector uses a lot of part-time and temporary employees. These employees do not always understand the operational environment and the organisation's projects catchwords. Hence, it is also good to avoid abbreviations and work slang.

The interviewees also discussed rewarding, which affects employees' job satisfaction and the way in which they treat customers. These interviewees observed that it is important for the reward system to be fair, justifiable and open. It is important for the supervisor to set the targets at the beginning of the year, so that employees will have enough time to reach the targets. Also, it is necessary for the organisation's middle and top management to stand behind these targets and act as a role model. For example, if the supervisors are not interested in monitoring the standard of activity and the results, it is difficult to expect the employees to adhere to these procedures. Two of the interviewees emphasised that the rewarding system must consist of two parts: individual performance and team performance. They said that this model rewards individuals for outstanding results and yet also takes into account those employees who have their own important role in common projects, although they do not belong the group of top sales people. One of the interviewees noted that if the reward system is based solely on the supervisor's own opinion about an individual employee, an employee who is not the supervisor's favourite might find it hard to receive a merited increase.

DISCUSSION AND IMPLICATIONS

The main purpose of this study was to find out how the personnel's work methods are related to customer satisfaction. My qualitative examination is based on two large quantitative research studies: Finland Post's customer satisfaction (n=40,692) and personnel satisfaction surveys (n=1,507) from the year 2000. In this research, I benchmarked post offices wherein customer satisfaction is particularly high (n=10) and post offices in which customer satisfaction is particularly low (n=10). I augmented the results of the analysis by interviewing five service experts in spring 2010.

According to the results, those post offices in which customer satisfaction is particularly high have aimed at certain methods of procedure which are mutually directed at customer satisfaction. Also, target-oriented and dexterous activity, the quality of the supervisor's work, openness and experience of working under a fair amount of pressure are typical of these post offices. This receptiveness showed up especially in conflict and learning situations. In such cases differences of opinion were handled in a constructive way and people had a good chance of learning from the behaviour of others.

In the best post offices, the personnel were satisfied with their working arrangements, and they considered that the workloads are reasonable. In practice, the benefit of a good working arrangement is that the personnel are in less danger of becoming overworked and this means better opportunities to offer a good service to customers.

It was noticeable that in the best post offices, the personnel adhered to established practices and different groups did not seek their own interests. These post offices reacted quickly and flexibly to customer needs, too. One explanation for this finding may be that in the best post offices the personnel were awarded a prize for initiative and responsible action. Also, a target-oriented approach guided the personnel's activities in these post offices. For example, in all the best post offices the personnel knew how their own work unit's targets were related to Finland Post's targets. Target-oriented and parallel action is very important, because it helps to attain Finland Post's targets.

This finding, related to target-oriented action, supports a view that the personnel's understanding of an organisation's target has a positive effect on its profitability (Kaplan & Norton 1996; 2001; 2004). In Finland Post's case target-oriented action affected customer satisfaction positively.

Even the best post offices' personnel, who were satisfied with their own work unit, criticised Finland Post as an employer. This result does not support the view of Grönroos (2000; 2009) that an organisation's internal climate also reflects an organisation's culture. In this research the personnel felt that the work unit's work climate was good—even then they felt that Finland Post's upper management does not appreciate its employees enough. This result supports the opinion that an organisation's internal and external reputations are connected (Bromley 1993; Young 1996). Also, the findings support the theory that a good work climate improves employees working ability (Robbins 1986).

My empirical findings suggest some important managerial implications. First, I found that it is important to identify the organisation's positive and negative attitudes and procedures and determine how these things affect the organisation's activities. In Finland Post's Counter Services in 2000 positive attitudes were reflected in established methods, responsible action based on rewarding systems, flexible procedures, the chance of learning from others' behaviour and constructive methods to handle disagreements. Lack of information, lack of acknowledgement and undervaluation of employment were examples of negative attitudes.

Another important finding is that in the view of the day-to-day management's it is important that supervisors

- check that all employees know and understand the organisation's vision and targets
- check that all employees know and understand their own job descriptions
- encourage employees to work together
- continuously encourage employees to improve customer service
- reward teams and individuals for success
- monitor how employees treat customers
- act as a role model.

One way to encounter future challenges is to improve the organisation's managerial skills and supervisors' actions. The other way to encounter future challenges is to admit that maybe not all wisdom comes from within the organisation; rather from customers. Customer-oriented organisations see customers as active partners and they are able to utilise the customer's know-how. Customers can, for example, test new procedures and products in authentic situations. Employees can also, for instance, observe and follow customers' actions so that they understand better customers' needs. These processes help organisations to make their action comprehensible to the personnel and focus on the right things. In the service innovation's view these new procedures are incremental innovation, because these procedures modify current services and create higher value for customers (Snyder & Duarte 2003; Lin, Chen & Chiu 2010).

LIMITATIONS

The principal limitations of this study concern four aspects: the scope of the study, the task type, the simplicity of the data and the age of the data. First, this study was carried out in the context of the Finnish postal services, which represent public services. Therefore, there may be several possible problems related to cross-national or cultural research. In addition, the employees represented sales persons, whose tasks consist of routine services. For this reason, the results may vary in non-routine services. Because the data consisted of results from only 20 post offices, these data represent only a small part of the post office network and generalisation from the results is impossible. Finally, the quantitative data is 10 years old and only the qualitative data is new. Therefore, the combination of the quantitative and qualitative data is questionable. On the other hand, according to the interviews, the questions concerning developing work methods and rewarding are still current.

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EXPLORING LIFESTYLE VERSUS CONSUMPTION PATTERNS IN EMERGING MARKETS

Yulia Lukinih
Siberian State Aerospace University, Krasnoyarsk, Russia

Zoltán Veres
Budapest Business School, Budapest, Hungary

ABSTRACT

Lifestyle research has been conducted relying on a great number of attitudes, products and brands. In spite of this, value orientation and consumption concept of certain lifestyle groups is not subtle enough. The paper intends to explore consumer clusters of leisure time consumption, shopping and brand attitudes in a Hungarian market setting combined with a comparative pilot survey in Russia. By a series of factor and cluster analyses eight distinctly different attitude groups could be identified: the sit-at-home and balanced, the successful, the moderate and particular, the thrifty and adapted, the hedonistic and ambitious, the quality-oriented and moderate, the quality-oriented and successful and finally the poor. Cluster profiles have been also investigated. However, results to some extent were contradictory. In a second research wave two improvements of the research design have been made. First, we measured the family's financial situation among the working and non-working population based on the possession of 20 assets. This was combined with the ESOMAR status forming method. Second, leisure time attitude questions have been partly replaced by measurement of leisure time activities of the respondents. The modified questionnaire resulted in a completely new lifestyle structure of the surveyed population. In a third research wave a pilot survey has been conducted in March 2010 in collaboration with the Siberian State Aerospace University in Krasnoyarsk region. Based upon the findings of this third wave we can state that leisure time preferences and activities are – beside a few exceptions - very similar in different regions of the same economic development level. As a further research programme a postquantitative qualitative research module is planned in order to make a finetuning to the quantitative results. Our research can be a useful contribution to development of marketing practices in the Hungarian and Russian market.

INTRODUCTION

In advanced societies, lifestyle research has been carried out for several decades, pushing conventional approaches focusing on social status into the background. Part of it was rather momentary, and no follow-up research was based on it. Yet there are certain lifestyle typologies that are continuously created. In the lifestyle research however consumption concept of certain lifestyle groups is not subtle enough. The transitions between the lifestyle groups are not known, nor do we know in which areas of consumption the differences between lifestyle groups are the most or the least conspicuous. In our research, we intend to explore consumer clusters of leisure time consumption, shopping and brand attitudes in two emerging markets: Hungary and Russia. Russian consumers stronger than probably all over the world can feel shopping as not only a process of satisfaction of their own needs both tangible and emotional. It is in Russia due to the peculiarities of the market, mentality, history and social practice, shopping is a process of class self-identification. In Russian consumer goods market, the one who has a buying ability and how one prefers to spend money as well as clothes is hardly the only 'language' about social status. This interesting phenomenon needs independent and detailed research.

LITERATURE REVIEW

The notion of lifestyle in marketing was introduced by William Lazer (1963). Our research adopted the definition by Veal (1993). This defines lifestyle as 'a distinctive pattern of personal and social behaviour characteristics of an individual or a group'. In practice, it refers to how 'the people live and spend their time and money' (Kaynak and Kara, 2001). One of the earliest forms of lifestyle measurements is AIO rating which looks

at how the people examined spend their working and leisure time (Activities), what they place importance on in their immediate surroundings (Interests), how they view themselves and the world around them (Opinions). Then, some basic characteristics are added, such as stage in life cycle income, and where they live (Plummer, 1974, p. 34). These were later completed and replaced by methods that took values into consideration (Schwartz and Bilsky, 1990). Values are 'desirable, trans-situational goals, varying in importance, that serve as guiding principles in people's lives' (Vyncke, 2002, p. 448). Some of the best known value based methods are VALS (Reece, 1989), and Kahle's LOV (List of Values) (1983). Speaking of lifestyle-based segmentation methods, we need to mention the Sinus Milieu model which is primarily employed in Germany and Austria. Experience from previous research suggests that in many segments, price fundamentally influences consumer decisions, therefore the determining power of their means may distort or even suppress the effect of lifestyle characteristics on consumption. Principally, research explored the relationship between social status and lifestyle. This alone raises the question what explanatory force lifestyle typologies have on leisure time activities, shopping and brand attitudes.

Traditionally, marketing classifies individuals by demographic criteria. This technique can be easily quantified but tells little about the factors or the motivation behind the consumption of group members. Its predictive capabilities can be improved by including groups-specific sociological and psychological factors in our investigations (Corrigan, 1997; Plummer, 1974; Ritzer, 1996; Veal, 1993; Vyncke, 2002; Wells, 1975). Research carried out in the USA and Western Europe place most emphasis on the significance of the involvement of psychological factors (Edris and Meidan, 1989; Fenwick et al., 1983; Fullerton and Dodge, 1993; Morgan and Levy, 2002). Psychographic analysis can be classified in two types, depending on how complex the analysis of consumer lifestyles is. "One dimensional" analyses look at only specific key areas of a consumer's lifestyle. In general, focus is on lifestyle elements of particular products. The other type is "multidimensional" which seeks to explore complexly defined general lifestyles that can have an explanatory force in other areas of consumption.

The practical application of lifestyle-based segmentation is especially suitable in marketing communication, the market of leisure activities, in Internet advertising, apparel marketing and banking, but even in the non-profit sector – e.g. for museums. Knowing the lifestyle of the target group can assist marketing communication to approach consumers with appropriate messages through the channel that suits the segment the best (Edris and Meidan, 1989; Vyncke, 2002). In the leisure activities market (Green et al., 2006), just as in banking (Peltier et al., 2002), apparel marketing (Richards and Sturman, 1977) or museum marketing (Todd and Lawson, 2001), it is important to know the lifestyle of our target market, so that we can offer them with suitable recreational or cultural activities.

In 1998 international advertising agency Leo Burnett conducted a research of changing values, psychological and behavioral stereotypes in Russia, Ukraine, Estonia, the Czech Republic, the Slovak Republic, Poland, Romania, Hungary, Germany. About two thousand people were questioned at the age of 16-70 years in 12 big cities (Melikyan, 2008, p. 148). According to the results, there were singled out three groups of consumers for Russia as well as for other countries of the region: mobilizers, optimists and disappointed. According to Russian Life Style typology the following factors influencing consumer's behavior were determined: orientation toward quality; orientation toward brand; spontaneity / thrift (planned purchase or impulsive); innovation / tradition; orientation toward foreign or local goods (Zalesky, 2002, p. 11).

EMPIRICAL SURVEY

1st Wave – Lifestyle clustering in Hungary

Considering the above mentioned, we have set the following research objectives: to investigate leisure time activities, shopping, brand attitudes and to identify consumer clusters based on these three dimensions. Concerning the research methodology after exploring the phenomenon by focus group discussions we conducted a face-to-face survey. Respondents were asked to judge 19 statements on their leisure time attitudes and 37 mixed statements on shopping and brand preferences. In the questionnaire a 5-point Likert scale was applied.

In the survey, our population included residents of the town of Szeged in Southern Hungary, aged between 18 and 75. The data collection was managed by the Marketing Department at University of Szeged. About 200 undergraduate students have been involved in the fieldwork under the supervision of a research team. The sample was selected from a mailing list using a randomized method. During the survey, 2,690 people were interviewed. The sample composition could be characterized as follows: 58 per cent of our respondents were female and 42% male. In terms of education, the members of the sample are representative of the composition of

Szeged's inhabitants: 10% had elementary school education (upper or primary level), about 20% had vocational school education. Concerning the rest of the sample the proportion of people with secondary school education was above 30%, as was the case with people possessing a degree from higher education. Education and the classification of respondents into social classes was slightly controversial, because more than half of the respondents classified themselves as middle class, almost a third to lower middle class, and only 5% consider themselves as belonging to upper middle class or the upper class. Considering their family status, slightly more than half of the respondents were married. It must be noted, however, that every fifth person was single, and about 10% divorced and living alone.

The following *opinions and attitudes on leisure time were measured* in the first wave: work versus leisure time; holiday (holiday abroad, holidays in Hungary and at home); light entertainment (going to the cinema, reading crime stories); consumption of high culture (going to the theatre, classical music) and other leisure time activities (eating out, sports, physical exercise)

We conducted a factor analysis on opinions about leisure time to determine, what opinion structures can be found. We identified three typical attitudes which together explain 59 percent of variance: the *sit-at-home*, the *outgoing* and the *high culture* factor.

For *shopping attitudes*, we found 6 factors that jointly explain 55% of variance:

Table 1: Brand-focused Factor (explained variance 12 %)

Shopping Attitude	factor weight
I think that well-known brands are worth buying	0.755
I think that only branded products are worth buying	0.717
I tend to stick to the brands I have become fond of	0.661
Some brands suit me better than others	0.588

Table 2: Thrifty Factor (explained variance 11 %)

Shopping Attitude	factor weight
I hunt for bargains and discounts	0.750
In my purchases, I seek the lowest possible price	0.678
I wish to economize when shopping	0.602
I always notice special offers	0.590

Table 3: Information-gathering Factor (explained variance 10 %)

Shopping Attitude	factor weight
Some people ask me for advice before they buy new things	0.792
I usually ask for advice, before I buy new things	0.744
I like trying out various brands, even of the same product	0.510

Table 4: Careless Factor (explained variance 9 %)

Shopping Attitude	factor weight
Sometimes I buy things I do not really need	0.724
I buy a product I like very much, even if it might not be the best quality	0.723
I really enjoy shopping for clothes	0.389

Within this attitude structure, economizing is absolutely not typical.

Table 5: Non-fashion-oriented Factor (explained variance 7 %)

Shopping Attitude	factor weight
I prefer buying comfortable clothes instead of fashionable ones	0.771

Table 6: 'I don't like shopping' Factor (explained variance 6 %)

Shopping Attitude	factor weight
I find shopping for food boring	0.683
I think the quality of Hungarian products is not good enough	0.506

For *brand attitudes*, we found 4 factors that jointly explain 59% of variance:

Table 7: Prestige-oriented Factor (explained variance 22 %)

Brand Attitude	factor weight
It tells a lot about me what brands I choose	0.772
A brand that a person consumes tells a lot about him/her	0.760
There are brands whose ownership truly reflects how I think of success	0.703
A brand tag on a piece of clothing enhances an individual's image	0.666
People who consume the same brands think in a similar way	0.601
The brands I am loyal to suit my personality	0.481

Table 8: Exhibitionistic Factor (explained variance 15 %)

Brand Attitude	factor weight
I would like to keep up with fashion	0.797
I spend a lot of money on toiletries and cosmetics	0.760
I find it important to appear well-dressed	0.614
The brands I am loyal to suit my personality	0.388

Table 9: Quality-oriented Factor (explained variance 14 %)

Brand Attitude	factor weight
I think it is worth paying more for quality products	0.749
Buying a branded product is more economical, because even if it is more expensive, its quality justifies its price	0.703
The brands I am loyal to suit my personality	0.322

Table 10: Brand-switching Factor (explained variance 8 %)

Brand Attitude	factor weight
I am usually not attached to any brand	0.945

The typical attitude structures explored tell nothing about what consumer clusters can be distinguished. To identify them, we conducted cluster analysis which took all measured attitudes – leisure time; shopping; brand attitudes – into consideration. Based on this cluster analysis, 8 significantly different attitude groups can be identified.

Cluster No. 1: Sit-at-home and balanced. They prefer relaxing and recreation in their free time. Typically, they give preference to spending the evenings at home in peace and quiet to going out. They do not go to the cinema regularly and they usually do not eat out in restaurants. As for their shopping habits, they prefer shopping for comfortable clothes. They stick to the brands they have become fond of. They are willing to save up when they want to buy something new, but they are not ready to give up a part of everyday products. They like having good quality products around them. However, they do not wish to keep up with fashion and spend little money on toiletries and cosmetics. They do not believe that brand tags can enhance an individual's image. They do not appreciate brands very much and they do not think that some brands suit them better than others. They see no relationship between their personality and the brands they use. Typically, they do not care what brands their friends and acquaintances buy. They do not seek to buy branded products. Usually, they do not try out various brands and wish to avoid buying the most expensive products. They take not much interest in special offers.

Cluster No. 2: Successful. In their leisure time, they need recreation and fun, which in part means an interest in high culture. They like going to the theatre. They love spending their free time doing things they can learn from: arts. They like going on holiday to far-away, interesting and exotic places. They enjoy having things of good quality. Above all, they buy clothes that are comfortable but they also find it important to appear well-dressed. They stick to the brands they have become fond of. They know that it is worth spending more on good quality. Whenever they want to buy something, they are willing to save up. They disagree with the idea that brands are symbolic of a person. They do not agree that

- a brand tag enhances an individual's image
- brands reflect how people think
- brands tell a lot about an individual's personality
- people who buy the same brands think in a similar way.

They do not seek to buy the brands that their acquaintances do.

Cluster No. 3: Moderate and particular. They are particular about what products they buy and like having things of good quality. Also, they are willing to pay more for better quality. However, they are ready to save up when they want to buy something, but they currently cannot afford to buy it. They prefer to buy rather comfortable than fashionable clothes. They think carefully how much they spend on a particular thing. They do not buy expensive toiletries or cosmetics. They are brand loyal and stick to the brands they have become fond of. Typically, they do not care what brands their friends and acquaintances buy. Their leisure time is mostly taken up by relaxing and recreation. They like spending the evenings at home in peace and quiet. They prefer to use their free time doing things that make them think or they can learn from, namely arts. This, however, does not prevent them from attending events or programmes they are interested in. They usually spend their holidays in Hungary. They do not like going to far-away, interesting and exotic places. Neither do they go to the cinema regularly, or surf on the Internet very often.

Cluster No. 4: Thrifty and adapted. Relaxing and recreation are most important to them in their free time. Thus, mostly, they spend their evenings at home in peace and quiet. They do not travel abroad for their holidays. They only work for money and are not particularly interested in their jobs. As a rule, they do not eat out in a restaurant. They do not go to the cinema regularly, or browse the Internet intensively. They enjoy having things of good quality. At the same time, they try to economize as much as they can and seek the lowest possible prices. They take advantage of bargains and discounts. Very often they save up money to buy something. In their clothes purchases, they give a preference to comfort over fashion. They do not necessarily want to buy branded products. They do not think that certain brands would suit them better. They do not agree that brands are symbolic or representative of an individual's qualities or values.

Cluster No. 5: Hedonistic and ambitious. They love doing sports in their free time. They often go out to have a meal. They like going on holiday to far-away, interesting and exotic places. Spending a holiday at home is not their thing. They like buying new products. They try to keep up with fashion. Whenever possible, they buy good quality things. It is important to them to look well-dressed. They are aware that good quality costs more. They are willing to save to be able to buy certain products. They especially enjoy shopping for clothes. They prefer to buy well-known brands. They stick to the brands they have become fond of. There are brands that particularly suit their personality. Besides, they attach great importance to the relationship between a brand and personality.

Cluster No. 6: Quality-oriented and moderate. They find relaxing and recreation important. Typically, they attend events that they are interested in, but they also like things that they can learn from and which have to do with arts. They like travelling abroad. They enjoy having things of good quality. In their purchases of clothes, they give a preference to comfort over fashion. They find it important to appear well-dressed. They are aware

that good quality costs more. They prefer buying high quality brands. They stick to the brands they have become fond of.

Cluster No. 7: Quality-oriented and successful. They are happy to stay at home in the evenings, but they like dealing with things in their free time that they can learn something from, such as arts. They do not go to the cinema or surf on the Internet very much. They are highly quality-focused. They are especially fond of good quality and are ready to pay more for it. If necessary, they save up to buy a desired product. In their purchases of clothes, they look for comfortable rather than fashionable clothes. Yet they find it important to appear well-dressed. For them, branded clothes clearly enhance a person's image. They prefer well-known brands. They tend to stick to the brands they have become fond of. They think that buying branded products is more economical, because good quality justifies the higher price. Therefore, they only buy branded products, because the brand they purchase tells a lot about them.

Cluster No. 8: Poor. They prefer spending their evenings at home in peace and quiet. Also, they stay in their homeland for their holidays. They think it is not so important to go abroad. They are not keen on the Internet; they do not go out to restaurants or to a cinema or to do sports. They always budget and in their clothes purchases, they give a preference to comfort over fashion. When shopping, they always try to find the lowest possible price. They are typical bargain hunters. They try not to buy useless things. They are convinced that branded products are not better quality, but we have to pay more for them because of their brand name. For them, brands are no prestige-factors. This is why they never consider what brands their acquaintances buy. They reject the relationship between brands and an individual's personality.

In the Table 11 the over-representation of certain segments in the clusters are figured.

Table 1. Cluster Profiles

	1	2	3	4	5	6	7	8
gender	-	F	F	-	F	M	-	-
social class	middle	middle & upper middle	lower middle	lower & lower middle	middle & upper middle	middle & upper middle	upper	lower & lower middle
ESOMAR status	C	A & C	-	D & E	A & B	C	D	E
volume of family	-	-	1	6	3	4	2	2
education	sec. & univ.	college & univ.	-	elementary, voc. & secondary	sec. & college	-	vocational	elementary & vocational
age	-	-	45-49 60-64	45-49	15-29	15-29 35-39	50-79	55-59 65-79
sphere of activity	public	public	public	comp.	comp.	comp.	public	civil

2nd Wave – Improved status typology

From the basic data, we concluded that the majority of respondents no longer spent their free time working, and although the theatre, the cinema and doing sports were not too attractive forms of recreation, many people still chose to spend their spare time on programmes they were interested in. As for buying habits and consumer characteristics, basic data showed that the subjects in the sample were price sensitive and rational consumers. However, results were contradictory. Although this study did not make it definitely possible to show interrelationships, it was apparent that attitudes to brands were complexly interrelated. Data on consumer attitudes required further analyses, as merely from basic data, apparently, no far-reaching conclusions could be drawn.

Examination of status is a crucial element of lifestyle research. This is supported by findings of both literature and by our own research so far. It is a characteristic feature of economies in transition that the middle layer of society is not wide enough, thus consumption is significantly determined by social standing i.e. status. This,

however, is by no means easy to measure. In our first research wave status categories were created based on the ESOMAR (European Society for Opinion and Marketing Research) status classification, i.e. individual status groups have been developed based on school qualification and the type of activity. Concerning retired people, activity was replaced by the possession of 10 assets.

Our experience showed that a method of classification using school qualification and the type of activity as criteria among the working population as well as the 10 assets in the ESOMAR recommendation among the non-working population makes only highly inaccurate measurements possible to identify status differences in a Hungarian setting. It is partly because of the transitional state of the society in an emerging country, such like Hungary, and in the other hand because of the local differences in owning products by the households. Due to the above, in the second research wave we measured the family's financial situation among the working and non-working population based on the possession of 20 assets. This was combined with the ESOMAR status forming method. The previously used ESOMAR product categories are by now out-dated and reflect the product range of the beginning of the '90s, thus we had to use some new ones instead. We considered 20 products to describe a household equipped with various devices. Based on judgment from four experts each product was assigned a weight number reflecting their average market value. The list of products considered was as follows:

- Traditional colour television
- LCD, plasma television
- Music centre
- DVD player
- VCR
- Two or more cars
- Digital camera
- Desktop computer
- Laptop, notebook
- Handheld computer (iPaq, PDA)
- Multi-purpose oven (baking, microwave, grill)
- Washing machine
- Dishwasher
- Electric drill
- Angle grinder
- Microwave oven
- Gasoline-powered lawnmower
- Freezer or a combined fridge-freezer with at least 3 deep freezer shelves
- Two or more portable radios with CD player
- Home sauna

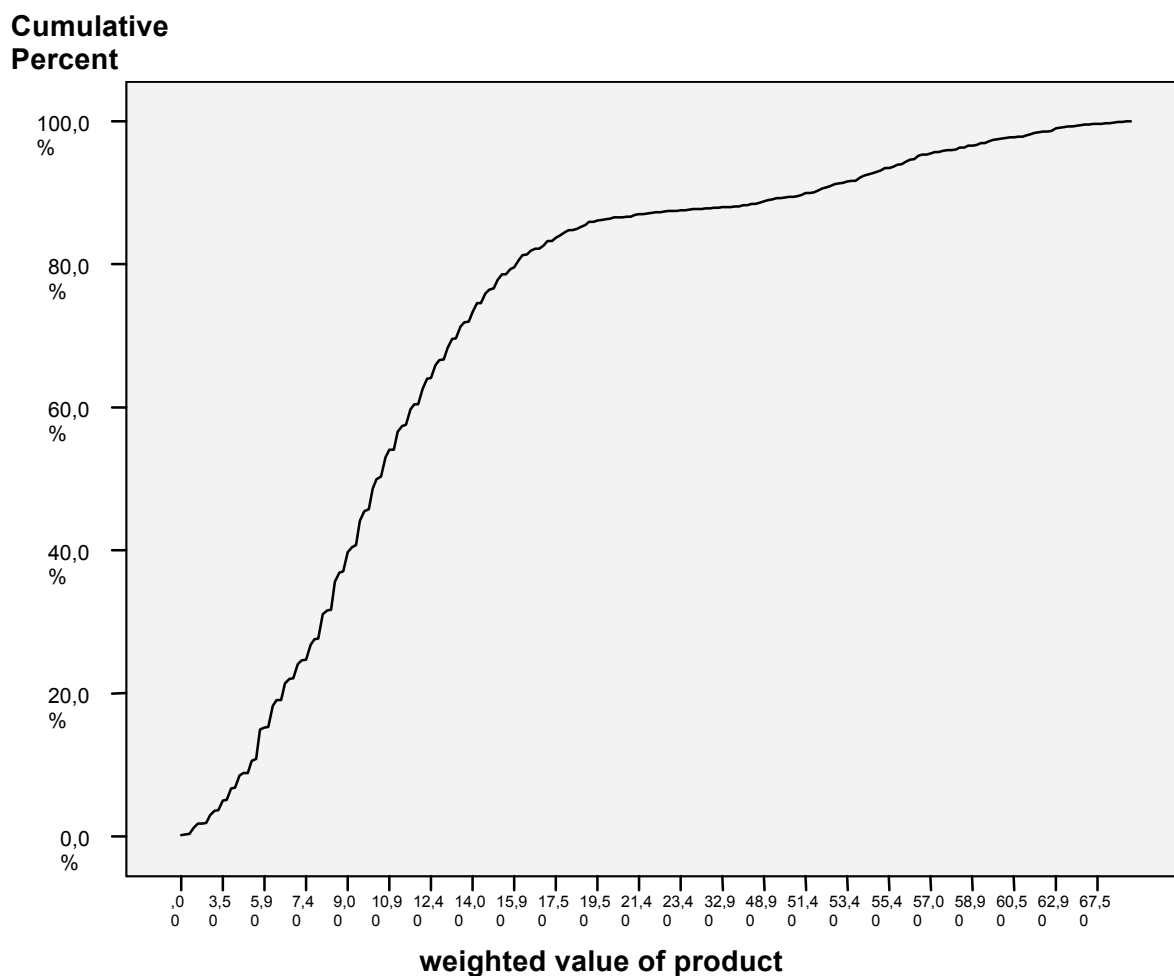
Based on possession of the 20 examined products, we developed wealth status groups. First a cumulative distribution curve from the weighted average market values has been calculated. The main criterion for classification was what scores lead to points of inflection on the distribution curve (see Figure 1). There was only one exception: within the "poor" category we made a further distinction based on what products someone has to own to belong to Hungary's existential minimum nowadays (the very poor). By this procedure we developed five main wealth status groups: very poor; poor; respectable middle-class; well-to-do and the group of rich

Table 12: *The difference in distribution in the sample between the ESOMAR and the new status classification*

Traditional status classification		Improved status classification	
A	6.9 %	A	9.7 %
B	4.6 %	B	16.4 %
C	42.1 %	C	16.0 %
D	39.6 %	D	28.9 %
E	6.8 %	E	29.0 %

Thus according to the improved classification method, the status-specific pattern of the sample has changed considerably. Taking the above financial situation, school qualification and the type of work performed by the family's main breadwinner into consideration, we developed status groups using clustering. The results of the previous ESOMAR status classification and those of the new one differ significantly (Table 12)

Figure 1: *Cumulative distribution of products' possession*



In the second research wave - beside the status classification improvement - we carried out a significant modification in the measurement of leisure time consumption. When comparing the answers to former research results it turned out that there was an extremely big difference between leisure time attitudes and activity. Consequently leisure time attitudes play a less significant role in forming lifestyle groups. It can be mentioned that also in case of shopping and brand attitudes the unstructured percentage of variance turned to be high enough, but a more differentiated factor structure has been resulted by the analysis. It means the cluster analysis was able to explore significantly different attitude groups in these dimensions.

Due to the above mentioned in the second research wave the leisure time attitude questions have been partly replaced by measurement of leisure time activities of the respondents. In the questionnaire the frequency of 26 different leisure time activities have been registered as follows:

- listening to light music
- listening to classical music
- reading magazines
- playing on computer games
- cultivating the garden
- going for shopping
- reading books
- knitting, crocheting, tailoring
- surfing on the web
- reading newspapers
- cooking
- cleaning of the flat

- private usage of PC
- chatting, e-mailing etc.
- Listening to the radio
- Promenade
- Relaxation
- Learning
- Making sports, fitness
- Entertainment with friends (pub, disco etc.)
- Indoor games (playing cards etc.)
- Watching TV
- Eating out
- Watching video, dvd
- Going to a party or receiving guests
- Going to cinema

At the same time 13 leisure time attitude questions remained in the questionnaire. Mixing these leisure time questions with 19 shopping and 20 brand attitude questions we repeated the survey on a similar sample as in the first research wave. Based on a cluster analysis the same significantly different lifestyle groups could be identified as it happened in the first research wave. It could be observed however that the modified questionnaire resulted in a completely new structure (i.e. different proportions) of the surveyed population.

3rd Wave – Pilot survey in Russia

In the third research wave we intended to go forward in two directions. On the one hand – since we consider culture as the most significant aspect in any activity - we were planning to investigate and compare Russian and Hungarian cultures in service consumption (tourism, sport, theater, wellness, cosmetics etc.). On the other hand - in order to make a fine-tuning to the quantitative results - we plan to conduct post-questionnaire focus group discussions (FGD).

The comparative pilot survey in Russia has been carried out in March 2010 in collaboration with the Siberian State Aerospace University in Krasnoyarsk region on a sample of 130 respondents. In the sociodemographic profile of the sample students were slightly overrepresented but the results can be considered as valid for founding a large sample survey in the near future. As hypothetical top line findings following results have been derived by comparing the Hungarian with the Russian data file:

- Entertaining music; cars, car tests; travel and tourism; internet, computer games; healthy life style, healthcare and belles-lettres, poems have higher, while pop-music lower preference in the Russian sample than in the Hungarian.
- Concerning everyday leisure time, such activities as learning; private internet, web surfing; going to cinema and doing trendy sports (roller-skate, skateboard, kickboard) are much more frequent in the investigated Russian region. As a contrary, having holiday in Europe; going for pop music concert; going for excursion, hiking; reading daily newspapers and gardening, tending pot plants are more frequently practiced in the Hungarian sample.
- If we put standard deviations under investigation in a few preferences and activities, significant difference of segment-heterogeneity can be detected, like e.g. knitting, crochet, tailoring; board games, playing card; going to cinema; doing trendy sports (roller-skate, skateboard, kickboard) or doing extreme sports (bungee jumping, rafting, jet-ski). These latter findings however – due to size of the Russian pilot sample - are not more than hypotheses before the large sample survey.

FURTHER RESEARCH

Our research can be a useful contribution to development of marketing practices in the Hungarian and Russian market. Nevertheless it is already clear even at this stage that leisure time preferences and activities are – beside a few exceptions - very similar in different regions of the same economic development level. Generalization of our findings can be expected from a representative survey in selected regions of the Russian Federation and from the fine-tuning post-questionnaire FGDs.

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PERFORMANCE RISK PERCEPTION IN SERVICE PROJECTS

Zoltán Veres
Budapest Business School, Budapest, Hungary

ABSTRACT

This research investigates the role of intangible resources that aim at reducing the buyer's perceived risk, enhancing his value and satisfaction, and thus lead to the acceptance of the provider's offer and the success of the project. The focus is on how intangible assets create customer value in service projects by decreasing perceived risk. This research is the second wave of a research programme being launched in 2008. A review of the area of perceived risk and value reveals an absence of sources that explicitly study and integrate the concept of risk-value interrelationship. By our definition, performance risk derives from goals. With particular projects, the goal is so complex that performance-related risks are very high. Risk-reducing communication has to be based upon a continuous, phase-specific and clear message on problem solving competence of both sides. Qualitative minifocus group discussions have been conducted at actors of project market. The industry profile of the 180 respondents included ad hoc market research, construction industry, IT systems, marketing-communication projects, consulting, business tourism, web design, business trainings etc. Respondents' task was to discuss six thesis-like statements based on their project-experience. The verbatim transcripts of the discussions have been evaluated by content analysis. The findings affirmed that especially large projects are unique therefore the ad hoc task has to be divided into routine-like phases in order to be able to cover the risk. Even if offers are highly standardized in numerous industries client's problem is always unique. There are new services that even the supplier lacks knowledge about, consequently this is a learning process for the supplier as well. At numerous firms risk reducing is systematic and standardized. Clients seek the extension of immaterial competence: expect certificates and/or charge third (neutral) parties. Client's competence is a leverage, but if it fails a communication-facilitator has to be involved in the process. Frequency of communication is risk reducer in itself.

INTRODUCTION

There are several reasons why companies of the project industry succeed (Cova and Holstius, 1993), such as financial arrangements, entrepreneurial culture and reputation (Cova and Salle, 2007). It is not clear why some suppliers are better at closing a deal and successfully finishing a project with a buyer, than others. According to our hypothesis the answer can be found in the presumed competence of the actors. The core problem is originated in the interrelated risk and value perception (Ruofan, 2009).

Srivastava et al. (1998) coined the term market-based assets in response to the need for facilitating the application of the resource-based view (Barney, 1991). Market-based assets represent intangible assets, such as relational assets and intellectual assets that are rare, hard for competitors to imitate.

This research investigates the role of intangible resources that aim at reducing the buyer's perceived risk, enhancing his value and satisfaction, and thus lead to the acceptance of the provider's offer and the success of the project. The focus is on *how intangible assets create customer value in service projects by decreasing perceived risk*. Projects are usually characterised as being complex, unique, interactive and discontinuous (Mandjak and Veres, 1998). Therefore, the research aims to primarily investigate the *impact of knowledge (functional competence) and relationships (relational competence) on the buyer's perceived risk* and further, explore how risk can be effectively managed in order to enhance the buyer's value perception. This research is the second wave of a research programme being launched in 2008 and since this year it is supported by the National Found for Scientific Research (No. 81565 K).

The remainder of the paper is structured as follows. The next section reviews the literature to develop the conceptual background to our three core concepts, competencies, risk and value. The subsequent section outline the research methodology, present the findings and discuss their implications.

LITERATURE REVIEW

The concept of perceived risk has been around since the 1960s and the domain of consumer behaviour has conceptualised perceived risk as corresponding to situations when there are potentially negative outcomes (Bettmann 1973, Dhalakia, 2001). Therefore, perceived risk is considered as an inhibitor to purchase. Several studies do not distinguish between risk and uncertainty (see. Taylor 1974). Later studies (e.g. Dowling and Staelin 1994) distinguished between uncertainty before the outcome and the outcome itself, which points to the timing of the perceived risk. Risk from the customer's point of view can be described as the comparison of alternatives (Aqueveque 2006). Jacoby and Kaplan (1972) developed a classification of perceived risk, which includes the following dimensions, such as 1) heterogeneity of offer (Veres 2009; Guseman 1981; Murray és Schlacter 1990), 2) buyer-supplier interaction, 3) price, 4) company image, 5) personality of decision makers, 6) history of seller-buyer relationship (Ganesan 1994; Sheth és Parvatiyar 1995) and heterogeneity factor. Research on these dimensions shows that transactions that are services at a high price from a company with a poor image (e.g. Havlena és DeSarbo 1991), with a low level of interaction and/or lack of history between the partners result in higher perceived risk., and where the offered at a higher price are associated. Based on the dimensions of perceived risk developed by Jacoby and Kaplan (1972), this paper focuses on the performance risk in relation to the supplier's expected performance.

Perceived value is usually considered before the transaction, however, its role is more apparent through the entire transaction. Besides the "is worth what paid for" approach (e.g. Newman 1988), Zeithaml (1988) proposed the trade-off of benefits and sacrifices approach. Similarly to studies in the area of perceived risk, research on perceived value was primarily undertaken in the end-consumer setting, however, there are a few examples in the business-to-business context (e.g. Lapiere 2000; Menon, Homburg and Beutin 2005). Research has identified various dimensions of value, such as cognitive and affective components (e.g. Anderson and Narus 1990; Sweeney and Soutar 2001), and goal performance and financial performance value, and in case of services, the process performance value.

Although both perceived value and risk has been investigated by researchers, no research has focussed on their relationship. Therefore, this study focuses on the interaction of the two concepts and specifically, how perceived risk impacts perceived value, and further, how risk communication can neutralise the unfavourable impact of perceived risk on value (Van der Valk and Johnston 2006). The role of risk communication is extremely important due to the unique nature and high value of projects, however, its role has not been explored in projects.

Perceived risk in project settings

As mentioned in the introduction this study focuses on projects that are usually associated with industrial transactions. These transactions are complex and have a physical (hardware, building) and an intangible component (software, engineering consulting, financial products, production know-how, etc.). In general, projects have the following characteristics: 1) time-bound (it has a start and a finish), 2) undertaken by a team and 3) for a specific purpose. Therefore, this definition allows the inclusion of services, such as engineering consulting, planning, production know-how transfer, ad-hoc market research, management of advertising campaigns, event management, etc).

Projects have several unique characteristics (Cova and Salle 1999; Cova, Ghauri and Salle 2002; Veres and Buzás 2006). 1) The most crucial risk element is the supplier's performance commitment, which is the responsibility to complete the project successfully in every respect. This risk applies until the project has been completed. 2) The project is a unique transaction even for the buyer. 3) The solution to the problem requires system thinking. Hence, project transactions are also referred to as system selling. 4) In the buyer-seller relationship, so-called cooperative risks emerge due to the conflicting interests of the parties. These risks allow each party to leverage the knowledge gaps of the other party (Schmidt-Wagner 1985). 5) Projects have a series of interactions between the parties that can be grouped into phases, such as feasibility study, briefing, supplier selection, project implementation, debriefing, etc. 6) The supplier-buyer relationship is periodic.

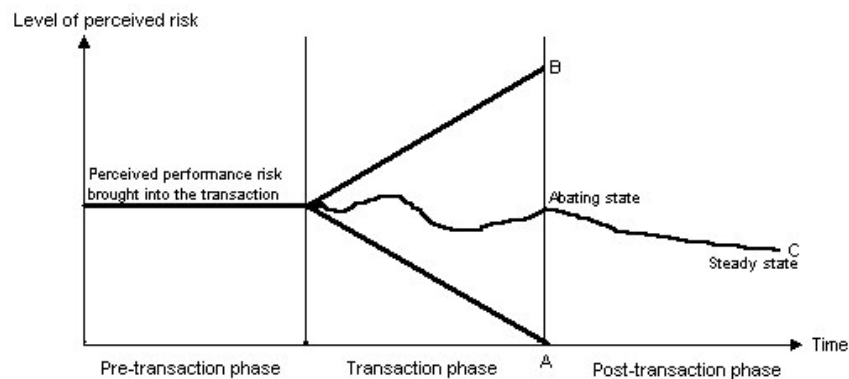
Although some projects have a substantial product content, it is unclear which component (product or service) dominates the transaction from the buyer's point of view. From a buyer's perspective the only relevant aspect is the successful outcome of the project as the buyer lacks the required knowledge to complete the project himself. (Schmidt and Wagner 1985). In essence, the buyer acquires competence-based expectations of benefits (Page and Siemplenski, 1983), where the knowledge is the major contributor of competitive advantage (Vargo and Lusch 2004). Summarising, projects are discontinuous, unique, complex and phase-specific transactions, where

the acronym of the first three characteristics created the DUC model (Mandják and Veres, 1998). Although the history of the buyer-seller relationship is an important moderator of risk perception, due to the discontinuity and the presence of inactive phases projects can last for years (Mandják and Veres, 1998, Cova, Ghauri and Salle, 2002).

Cova, Ghauri and Salle (2002) developed a model that describes the process of a project from the planning to the contract from the supplier's perspective. In this process, the specification of priorities is followed by a project-neutral phase, in which, the supplier prepares for leveraging his functional (core) competences as well as he manages his relational milieu by potentially involving external suppliers. The next phase of the process is the pre-tender phase, in which the supplier considers the potential demand, and selects the potential buyers in the market. Buyers are selected based on a set of criteria (project screening), whose problems are worth the investment from the supplier's perspective. The proposal phase includes the delivery of the proposal, the negotiation and the contract.

The uniqueness and performance risk of the project necessitate a very interactive, and problem-oriented partnership from buyer and seller from the beginning to the end of the project (in strong partnerships even beyond). Due to the unique nature of projects there are some strategic considerations to need to be emphasized (Cova and Salle 1996, Engelhardt 1993, Veres 2009). 1) The uniqueness of projects does not enable standard solutions, and hence, the project details need to be specified through the interaction of buyer and seller. 2) The process of quality management places a large emphasis on promised competences that can demand a price premium to be paid by the buyer. 3) Due to the lengthy process both parties bear a bilateral risk of the project implementation. As the project comes to an end the functional risk decreases for the supplier as he was able to finish the project, but the risk of non-payment (by the buyer) still exists and increases. The buyer's risk perception, however, only starts to increase once the project finishes. Although for the buyer non-delivery risk exists during the process, which might stay constant or it might even increase during the project. This risk perception flow is depicted by risk perception funnel (see Figure 1).

Figure 1. The risk perception funnel for services



Source: Veres 2009

The risk perception funnel describes:

a/ the process of risk flows in a project environment (horizontal dimension), which means that risk and risk perception are not independent from the transaction episodes of the project implementation. These episodes might also include access to new market information.

b/ the variability of risk (vertical dimension), which means that as the project progresses the parties reach the 'point of no return' and hence, are less likely to abandon the project and seek alternative suppliers. In our view, risk can be managed through effective/targeted risk communication, which can be considered as a marketing competence that is able to increase the buyer's satisfaction (see Golfetto and Gibbert 2006).

Competencies in projects

Resources can be tangible (e.g. hardware) and intangible (e.g. technology, reputation, alliance, know-how, relationship). The authors hypothesize that the intangible resources (or competences) can be one of the key determinants of the buyer's risk perception. For instance, a construction company's most important competence lies in the execution of complex tasks, whereas a consulting company's main competency revolves around its employees and their relationships with their clients (Sveiby 1997). Competences are classified as epistemic and heuristic competences, where the former represents evidences of previous project successes of the supplier (e.g. references), whereas the latter represents a promise for a reliable and successful delivery (c.f. Grant 1995; Möller 2006).

The Service Dominant (SD) Logic (Vargo and Lusch 2004) provides a useful framework for explaining how competences are used in achieving competitive advantage for the company. According to the SD logic the basic unit of exchange is the competence in use. Value creating problem solving is the key part of any projects, and hence, in order for the firm to create competitive advantage they have to leverage their intangible assets of the company. These intangible assets can manifest themselves in products, technology or management, which develop under competitive pressures. Therefore, competences can be interpreted as the organisation's learning capability. Competences provide significant advantages in three main areas; in project development, network management and customer service management. The SD logic further states that the supplier only makes a value offer, whereas value creation is the buyer's task. This interactive process between buyer and supplier results in value creation, where the exploration of the customer's value preferences is a key aspect an active client management. Therefore, the pre- and post-transaction phases are sometimes play a more vital role than the transaction itself.

A systematic evaluation of competence-based value creation was undertaken by Möller (2006), who concluded that the supplier's (value) offer can be communicated in three ways. These three aspects are the exchange, relational and proprietary, where the latter two extends the boundaries of the exchange (tedchnological problem solving) competence.

The parties usually take a position in the transactional-relational continuum, hence, these two orientations present a rather mixed orientation than a pure transactional or relational approach.

Project buyers are, in general, competent and involved actors in the transactions (Cova and Salle, 1999, Bettencourt et al., 2002, Axelsson and Wynstra, 2002). The uniqueness of projects contributes to higher uncertainty, which in turn, leads to a higher level of perceived competencies. The authors hypothesize that the supplier's reputation is the major driver of his perceived competence. Hence, this paper focuses on whether the buyer actually investigates the supplier's competencies or he might basis his judgment on the supplier's competence communication. At the start of the project, the buyer's risk evaluation is most likely to be based on the supplier's communication, whereas during the project the communication's role decreases. Receiving information about the supplier's competence profile reduces the buyer's market uncertainty (especially in the pre-transaction phase) (Golfetto és Gibbert 2006) and its transaction uncertainty in the implementation phase (Ford 2002). This phenomenon is referred to as the marketing of competencies (Golfetto és Gibbert 2006).

METHODOLOGY

Data was collected in 2009 by using in-site expert mini-focus group interviews in the contexts displayed in Table 1. Equal number of focus groups was conducted with buyers and suppliers in each context, hence 90 buyer and 90 supplier-side interviews were undertaken. Every mini focus group included 2-3 decision makers, such as project experts, business marketers. During the interview a standard qualitative interview guide was used that consists of 6 main topics, which are as follows: 1) project uniqueness, 2) problem solving as the supplier's main competitive advantage, 3) interdependency in projects and its relation to performance risk, 4) the role of competences in decreasing risk perception, 5) the role of risk communication in reducing uncertainty and 6) the role of supplier-buyer relationship in influencing perceived risk. These topics aimed to explore the decision makers' view on the competence-based risk perception. The decision makers who participated in the interviews were asked to discuss their views on these topics based on their own experiences.

Table 1. Number and context of expert mini focus groups

Project activity	Number of mini focus groups
Ad hoc market research	20
Construction	12
IT consulting	20
Marketing communication/PR	20
Media agency	12
Finance (eg loan, insurances)	16
Consulting	16
Event management	32
Business tourism	8
Business education	4
Other industrial services	8
Web development	12
Total	180

Qualitative *minifocus group discussions* have been conducted at actors of project market. The industry profile of the 180 respondents included ad hoc market research, construction industry, IT systems, marketing-communication projects, consulting, business tourism, web design, business trainings etc. In the organisation of focus groups the following criteria have been followed:

- Equal proportion of participants from supplier and buyer side
- 2-3 decision makers in each focus groups
- In-site focus group discussions to avoid distortion from place of discussion
- Professional discussion moderators

The phenomena under consideration are explored using the following scenario. Respondents' task was to discuss six statements based on their project-experience:

Statement 1: A project is always unique and system-like.

Statement 2: The major benefit of the "product" for a client is the supplier's ability to solve problems.

Statement 3: The success of performance can only be identified after the project process has closed (hence the dominance of performance risk).

Statement 4: Perceived risk is reduced by competence. This competence is asymmetric.

Statement 5: Communication of risk may moderate the uncertainties felt by the customer.

Statement 6: As confidence strengthens, supplier-buyer relationship reduces the risks perceived.

The verbatim transcripts of the discussions have been evaluated by content analysis.

FINDINGS

This section will provide a summary of the findings gained from the interviews according to the six main topics mentioned above.

1. Project uniqueness

The respondents agreed that projects are unique, especially due to the rapid technological and environmental changes. Therefore, in order to reduce the buyer's risk perception complex problems need to be divided into smaller, routine (modularised) tasks, whereas suppliers often make the mistake of developing highly standardised offers.

"...buyers do not want standardised answers... but they expect us to find a solution for them."

This challenge requires sophisticated service adaptation. In services standard solutions emerge due to the buyer's attitude and his time constraints. Uniqueness makes sales more difficult. Projects are unique systems that coupled with new products represents a knowledge gaps on the supplier side that he needs to fill.

"When we talk about project selling, we do not mean the sale of a physical thing, but rather that of a future intangible, and hence you have to provide some evidence to the client that we are able to implement the project, and hence he becomes more efficient and will also save some money."

Projects usually have a professional side and a methodological side. The methodology has always the same components, such as survey, needs assessment, planning and testing. Needs assessment is vital as sometimes by the time the project finished there was no need for the solution anymore. These tasks are repeated over and over again.

"When the client has a need...the best situation is, when we find out together what this needs it exactly, whereas some clients try to fix every problem in the same way every time irrelevant of the nature of the problem."

2. Problem solving as the supplier's main competitive advantage

The interviews revealed that the client side has several talented managers, who can find solutions for managing their own business processes, however, they do not take responsibility as they cannot influence other members of their organization. In this respect the governmental and non-profit clients are very different.

"Clients who have a set budget have a weak position in negotiations."

High-tech industries (e.g. telecommunication) take a proactive approach in problem solving, and they might also demand the imitation of a competitor's innovative system in a short period of time. Nowadays, cost efficiency is part of problem solving. In classical project markets, such as the construction industry, the effective recovery is a key factor. All in all, in some industries the involvement of the client is vital, whereas in some other industries the involvement is not required at all:

"The supplier is there so the client can get comfortable."

3. Interdependency in projects and its relation to performance risk

It should be noted that this topic was the hardest to interpret for most participants. Interdependency in projects means that if a project is abandoned then the outcome of it is destroyed.

"...we try to emphasize this. At every milestone our ties become stronger and hence it becomes clearer what we aim to achieve...Provided it is a long project, then we will have a situation analysis, a needs assessment, a concept plan, a concept and all of them should be approved by both, the client and the supplier, which becomes a joint knowledge that takes us further."

Many companies aim to consciously reduce risk and their processes seems very much standard: continuous project monitoring or setting up milestones (status meetings) and iterations. Nevertheless, it is impossible to create a project briefing with flawless specifications as the outcome of the project provides new challenges in terms of its use. Hence, this post-delivery refinement creates a new learning curve for the supplier, which takes a year at least.

4) The role of competences in decreasing risk perception

It can happen that behind the communication/image of a particular competence there is no real content. Therefore, clients, in order to avoid this pitfall, usually look for tangible evidences of competences, such as accreditations (eg. ISO). The higher the competence level of the client the better they understand the problem, however, if it is missing a third (neutral) party might need to be involved. This phenomenon is commonly referred to as competence-asymmetry, which is high in some sectors (eg. finance), whereas low in others (eg. training), and again in others (eg. business tourism) the client tends to overestimate his competencies. Asymmetric competencies represent the biggest challenge in the pre-transaction phase due to client's need uncertainty, whereas the extent of asymmetry decreases over the course of the project. In the area of consulting, the client's professional competencies might outweigh that of the supplier, however, the consultant has higher levels of system and experience competencies. These asymmetries start to disappear as the client gets to know the system and the consultant gets familiar with the company's business processes. Finally it is to underline that the *impact of knowledge (functional competence) and relationships (relational competence) on the buyer's perceived risk* can be extremely different as it has been explored by Awuah (2001).

5) The role of risk communication in reducing uncertainty

Our findings in this issue confirmed the research results of, among others, Garner (1986) and Brashers (2001). The respondents agreed that the client's risk is larger than the cost of the project as the client's business is at stake.

"...it seems like a public relations exercise that at the start of every project we inform the clients about certain risk factors for self-defense."

Solely communicating the risk factors will certainly increase the level of perceived risk, and thus, risks always have to be presented with the solution in order to decrease the risk perception. Due to the risk communication of the supplier the client's risk perception changes during the sales process. At the start the client is usually open to various options, but subsequently – as his knowledge and involvement increases its risk perception also increases. Frequent communication between supplier and buyer can, however, lead to a decrease of perceived risk. Clients should be convinced about not to follow unrealistic objectives.

6) The role of supplier-buyer relationship in influencing perceived risk. The confidence-dimension.

Respondents thought that emphasizing trust in the buyer-supplier relationship is commonplace, however, eventually participants agreed that long-term relationships are disadvantageous and do not serve the client's needs. In several industries supplier changes are carefully planned.

If retention is the goal, then investment into the relationship is vital in order to increase the client's trust. Suppliers have to visit the client regularly in order to achieve a certain level of trust, which can also be institutionalised by introducing support contracts, which can lead to new projects.

"...if there is no contract like this, then maintaining the relationship is costly, but its return is uncertain."

The value of the relationship is relative, therefore, both orientations (transaction, relationship) are present in the marketplace. Due to high level of trust in the consulting domain, everyone is perceived to be relationship-oriented. Although there are no calculations on the return on relationship (ROR) rather they intuitively manage their relationships with their clients.

On the international dimension

Taking into consideration that numerous project transactions are realized in an international environment, an additional dimension, namely the international one, has to be added to the analysis. In this dimension the uniqueness and the communication can be considered as of special concern. From the uniqueness point of view problems appear in a more intensified manner. International context of the project is a unique attribute in itself and its correct management needs special business competences. The difficulties of (risk) communication are similar to that of intercultural communication in the international business practice.

CONCLUSIONS

Finally, the following conclusions can be drawn from this research.

From the data collection it became clear that the size of the company has a significant impact on reducing the client's risk. This can be explained by the principle of substitution, which means smaller companies have 1 or 2 key people, whom the client interacts with. If they leave the company, this jeopardizes the success of the project. This principle is in contrast with the principle of flexibility, where smaller companies are more flexible in project implementation than bigger ones. Subsidiaries of multinational companies can tap into each others' organizational knowledge and hence experiences through accessing their global databases. However, ample differences (economic, legal, cultural, language, etc.) between contexts can make this knowledge look rather difficult to transfer.

The interviews further revealed that both parties' competencies contribute to value creation in projects, however, the competence-asymmetry should also be acknowledged. Most project actors feel that the other side lacks relevant competencies, however, they also assume this asymmetry is of a small extent. The research revealed this asymmetry is mutual and hence these should be referred to as discrepancies. Clients usually do not learn much from projects and even if they do they do not internalize this knowledge, but rather they rely on creativity and routine at the start of the next project. The project team composition, selection and the human resource

management process are of ad-hoc nature rather than systematic on both sides, which is a large risk factor in itself.

Quality assurance and control systems and references clearly communicate competence, and hence reduce the client's perceived risk, however, these do not work in every context. (eg. event management) Clients work with the same event management companies because in case of a failure the stakes are high, which will result in poor image and thus financial loss. Furthermore, mutual communication and interactivity can decrease risk perception and thus, represent enhanced problem solving capability. Nevertheless, risk communication has to focus on both, the risk factors as well as the solution.

Finally, this research confirmed that there are more common characteristics across project activities than differences between them. This research aimed to explore some of these characteristics, which can be a significant contribution towards the interrelationship between competences, risk perception and value creation. Further research will be aimed to undertake a quantitative survey to generalise our qualitative findings and to understand – as a conceptual framework of our study – in what way competence, confidence and communication affect minimization of risk attached to project performance.

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SUPPLY CHAIN MANAGEMENT

MANAGING SUPPLY CHAIN-BASED CONFLICT: A STUDY FROM TEXTILE EXPORTERS PERSPECTIVES

Süleyman BARUTÇU
Pamukkale University, Turkey
Hulusi DOĞAN
Akdeniz University, Turkey
Esin BARUTÇU
Pamukkale University, Turkey
Atik KULAKLI
Beykent University, Turkey

ABSTRACT

Conflict is a common event in interactions among persons, companies and supply chains. The main objectives of this paper are to (1) explain the importance of conflict management in a supply chain, (2) bring out the sources and resolution methods of the supply chain-based conflicts, and (3) explore the differences between upstream and downstream textile supply chain-based conflicts. The survey conducting on textile companies provides insight into supply chain-based conflict from textile exporter perspectives. According to the survey results, the conflicts between the supply chain partners just appear to be a fact of business atmosphere. The underlying sources of conflicts are price changes for downstream partners and demand for faster delivery from upstream partners. The underlying conflict resolution methods are compromising for downstream partners and sharing for upstream partners. Moreover, the independent-samples T-tests make clear that the sources and resolutions methods of supply chain-based conflicts are different between downstream and upstream supply chain, and cannot be generalized for all the supply chains. Thus, the supply chain-based conflict management should be divergent for downstream and upstream partners.

Keywords: *Supply Chain Management, Conflict, Conflict Management, Textile Supply Chain*

INTRODUCTION

Over the last decade, the competitive business atmosphere has pushed companies to compete not solely on their own capabilities but with their entire supply chain and suppliers (Hult et al., 2007). Moreover, increased customer requirements and globalization have forced managers to ensure that their organization's resources are well aligned not only across all functional areas but also throughout the entire supply chain (Vachon et al., 2009). Nowadays, an effectively managed supply chain is one of the main requirements because the efficiency of companies is heavily dependent on their suppliers and supply chain partners. Thus, the supply chain, its processes and supply chain management have been begun to be implemented increasingly by companies as an important strategic option for pursuing their strategies from automobile to textile industries.

Supply chain management is a field, comprised of many disciplines, especially Business (such as Marketing, Management and Finance), Production Management, Logistics and Industrial Engineering etc. Therefore, supply chain management has been studied in respect of a number of perspectives. One of them is the conflict management in a supply chain, because it is important for the success of companies and their relationships with the suppliers. Affecting the performance of supply chain management, conflict is inevitable between persons, companies and supply chains. In the management literature, most of the conflict researchers studied the types of conflict between workers, persons or groups in a company, between company and persons. In the marketing literature, most researches on conflict focuses on channel relationships and conflicts between marketing and production departments or persons. In the supply chain management literature, there are limited researches on conflict management focused on the sources of conflict, the factors leading to conflict and the methods for conflict resolutions in order to reduce the negative effects and increase the positive effects of conflict.

This paper analyses the sights of conflict management in the textile supply chain so as to accomplish harmonious and productive working relationships within both downstream and upstream textile supply chain. Thus, the concepts of supply chain, supply chain management, conflict, conflict management, the textile supply chain, the causes and resolutions of conflicts in the textile supply chain are explained. The survey results conducted on textile exporters to understand which conflict and conflict management methods are used in supply chain-based conflict are presented, and what are the differences between downstream and upstream textile supply chain-based conflict are compared.

CONCEPTUAL FRAMEWORK

Supply Chain Management

As the world economy becomes increasingly competitive, competition among companies is becoming fierce and no longer between companies and companies, but supply chains to supply chains, and companies can no longer effectively compete in isolation of their suppliers and other entities in the supply chain (Lummus and Vokurka, 1999; Christopher, 2000). Hence, one of the most significant paradigm shifts of modern business management is that individual companies no longer compete as solely autonomous entities, but rather as supply chains (Lambert and Cooper, 2000). Moreover, sustaining competitiveness and the resulting profitability depends less on the ability to raise prices. Instead, companies need to compete on the basis of product innovation, higher quality, and faster response times, all of which must be delivered, in most cases simultaneously and always at the lowest costs attainable. Those competitive dimensions cannot be delivered without an effectively managed a supply chain (Presutti, 2003). As a consequence, competition shifts from company versus company to supply chain versus supply chain, and the supply chain management has been considered as the most popular operations strategy for improving organizational competitiveness, because this system incorporates the entire exchange of information and movement of products between suppliers and final customers, including manufacturers, distributors, retailers, and any other companies within the extended supply chain (Gunasekaran et al., 2008).

A supply chain can be defined as a network of various organizations involved both through upstream and downstream linkages in different kinds of activities and processes (Christopher, 1998) and involves interdependent units within a company and across divisions that belong to both downstream and upstream partners (Ballou et al., 2000). The term supply chain management has been used to describe the planning and control of materials and information flows as well as logistics activities not only internally within a company but also externally between companies (Cooper et al., 1997). According to various studies, supply chain management can be defined in many ways. For example, the Global Supply Chain Forum defines Supply Chain Management as the integration and incorporation of key business processes from end user through original supplier that provides materials, products, services, and information that add value for customers and other stakeholders (Lambert et al., 1998; Soroor and Tarokh, 2006). Udin et al. (2006) defines supply chain management as a system that contains multiple entities, processes and activities from suppliers to customers. Stadler (2004) summed up the many definitions of supply chain management by various authors and researchers as 'the task of integrating organizational units along a supply chain and coordinating materials, information and financial flows in order to fulfill customer demands with the aim of improving competitiveness of the supply chain as a whole.

Supply chain management aims at four major targets: (1) waste reduction; (2) time compression; (3) flexible response; and (4) unit cost reduction. These goals have been articulated in several contexts associated with supply chain management, emphasizing the importance of coordination. Companies practicing supply chain management seek to reduce waste throughout the supply chain by minimizing duplication, harmonizing operations and systems, and enhancing quality. When production and logistics processes are accomplished in less time, all entities in the supply chain are able to operate more efficiently, and primary outcome is the reduced inventories throughout the system (Brewer and Speh, 2000). Thus, supply chain management can positively impact many functions and outcomes of the company including product quality, customer responsiveness and resultant satisfaction, manufacturing cost control, product and market flexibility, and macro performance outcomes including market share and profitability (Meier et al., 2004). Successful supply chain management requires cross-functional integration (Lambert and Cooper, 2000). The basic concept behind supply chain management is how the raw materials and information flow from the supplier to the manufacturer, before final distributions to customers as finished products or services. The capability of sharing and exchanging information is essential to improve the effectiveness of the supply chain management (Udin et al., 2006). Thus, the crucial task of supply chain management is to gather the customers' demand more efficiently by providing the right product, in the right quantity, at the right location, at the right time, and in the right situation. However, one of

the problems that suppliers come across is conflict among companies in a specific supply chain. Although conflict can occur at anytime and anywhere in the human life, there are some differences between human life-based conflict and the supply chain-based conflict. Thus, it is important for the supply chain to manage conflict effectively so that the positive consequences of conflict can be realized. Coordinating and managing distributed entities in a supply chain is a challenging task due, in part, to conflicts present in such systems. If not handled effectively, the conflict can degrade the performance of the system (Blackhurst et al., 2008).

Conflict and Conflict Management

Conflict has been a hot topic studied by researchers in the discipline of psychology, sociology and business (Rahim, 2001), and revised by academicians in the discipline of management, marketing, psychology and sociology etc. Whenever people or companies work together, conflict in a team, company or among companies is inevitable (Daft, 1997: 608), and a ubiquitous phenomenon that covers all activities among companies. Researchers, in different fields, have recognized conflict as an important issue that affects organizational and supply chain performance (Bradford et al. 2004; Lam and Chin, 2005). For example, there is a negative relationship between conflict intensity and performance of supply chain in terms of product quality, delivery time, meeting of target development costs and etc. The effects of conflict in the workplace are widespread and costly. Its prevalence, as indicated by three serious studies, shows that 24-60% of management time and energy is spent dealing with conflict. This leads to decreased productivity, increased stress among employees, hampered performance, high turnover rate (Fiore, 2004).

In the literature, conflict can be termed in many ways. For example, conflict can be defined as the interaction of interdependent people who perceive opposition of goals, aims, and values, and who see the other party as potentially interfering with the realization of these goals (Putnam and Poole, 1987), as disagreement between two or more individuals, groups or parties (Griffin, 1990: 531), any situation in which two or more parties feel themselves in opposition (Newstrom and Davis, 1997: 312), as a process that begins when company or persons perceives that another company or person has negatively affected, or is about to negatively affects, something that the first party cares about (Robbins, 1998: 434) and as the behaviors or feelings of interdependent parties in response to potential or actual obstructions that impede one or more of the parties achieving their goals (Coughlan et al., 2001). There are many studies about conflict in different areas. For example, Geyskens et al. (1998) studied conflicts in channel relationship and retailing. Shaw and Shaw (1998) analyzed conflicts between engineers and marketers from engineer's perspectives. Rahim (2001) asserted that conflict has both functional and dysfunctional outcomes. Functional outcomes include stimulating innovation and creativity, and better decision making, whereas dissatisfaction, mistrust, damaged commitment and relationship are the common dysfunctional outcomes. Bradford et al. (2004) researched supply chain-based conflict and how affect company performance. They analyzed (1) inter-personal conflict and (2) task conflict in the retailing industry because retailers increasingly are becoming involved with groups of other firms to improve their effectiveness in performing business activities. The results of their research show that conflict can have negative effects on network outcomes. Lam and Chin (2005) analyzed conflicts in new product development process. Kozan et al. (2006) analyzed conflict management in Turkish buyer-supplier relationships, and studied buyer-supplier relations from a conflict management perspective capturing data from 50 buyers in automakers and 72 suppliers. In sum, conflict has been studied in terms of conflict among departments, ideas, companies and individuals. Specifically, the area of supply chain-based conflict is particularly important due to importance of supply chain management.

Conflict Management in the Textile Supply Chain

Conflict Management in the supply chain is not a new concept, but it is a very important aspect of supply chain management dynamics and performance of companies. Therefore, managing supply chain relationships is a particular challenge, since their very nature includes conflicting objectives in addition to a need for cooperation (Bradford et al., 2004). Since the conflict differs from company to company and textile supply chain to food supply chain, on the one hand, the textile supply chain-based conflict can be defined as an ongoing state of disagreement and incompatibility between partners in the textile supply chain or the processes that start on when one supplier perceives that the other suppliers have bothered. On the other hand, the textile-based conflict management can be defined as the short or long-term management processes used to resolve disagreement and incompatibility. Pondy (1967) identifies three conceptual models to deal with the major classes of conflict in organizations, (1) Bargaining Model: conflict among interest groups which are in competition for scarce resources; (2) Bureaucratic Model: conflicts between a superior and a subordinate, or along any vertical dimension in the organizational hierarchy; (3) Systems Model: conflict among parties in a lateral or functional relationship, and in particular, the problems of coordination. The textile supply chain-based conflicts are related

with all these models because there are many relationships among person and companies in the textile supply chain.

The Sources of Supply Chain-Based Conflict

Since conflict prevention is always easier than conflict handling, foreseeing sources of supply chain-based conflict will be more useful. In general, conflict is widespread within and among the supply chain partners, and there are some kinds of conflict arisen in the supply chain because of following reasons, (1) differences in objectives; (2) lack/scarcity of trust among the partners; (3) use of coercive power and strategies by chain members, (3) inefficient system structure, (4) win-lose mentality, (5) slippery and arduous global business environment, and (6) lack or scarcity of collaboration and cooperation within the organization and among the supply chain partners (Barutçu et al., 2005). Naturally, there is an ongoing conflict between manufacturing, finance and marketing departments because of different cultures, mentalities and goals. For example, group or party interdependence, differences in goals, resource competition, and interpersonal dynamics etc. can cause conflict within and among organizations (Griffin, 1990: 532-533). Many times conflicts arise because individuals or groups are trying to control resources in pursuit of their own goals (Milgram et al., 1999: 297). Good supply chain management means openly talking through and coming to a real agreement on difficult organizational issues, such as authority, performance, collaborative decision-making, power imbalances, and the sharing of risks, costs, and improvement benefits. But, none of the system of collaboration is perfect. Moreover, the supply chain can often be complex because of the large network of suppliers and different objectives across the supply chain. The difficulties imposed by this complexity are compounded by the increase in competitive pressure with the demand for ever greater levels of responsiveness, shorter cycle times and a simultaneous increase in the complexity of products (Handfield and Nichols, 1999). Buyers and suppliers would also conflict intensively for blaming each other for responsibility once the consequences such as redesign and delay occur because of the different interpretations of product specifications (Lam and Chin, 2005). For example, at a manufacturing company, when the supplier of a component promises delivery dates to another supplier and components don't arrive on time, production facilities fail, customers may change or cancel orders, etc. and conflict arises among the parties involved. The level of structure in the relationship can influence the potential of conflict. Structure, by formalizing the form, process, and content of the relationship implies a level of agreement about mutual expectations. The structure of an organizational relationship is the level of specification of roles, obligations, rights, procedures, information flows, data, and analysis and computational methods used in the organizational relationship. Lack of structure would, therefore, contribute to the risk of conflict. Given the different levels of interdependence (pooled, sequential, and reciprocal), they imply different levels of structure and therefore imply different potentials for conflict (Kumar and Dissel, 1996). In a typical supply chain, there is a sequential interdependence among the partners and this kind of interdependence requires one group's output to serve as another group's input, thereby providing basis for great potential conflict (Gibson, 1997: 228).

The Resolution of the Supply Chain-Based Conflict

Generally, optimal level of conflict stimulates creativity, innovation, and improvements. But excessive level of conflict may harm relationships in the supply chain. Provided that textile companies are currently facing a conflict situation, they should look at the ultimate cause of this conflict. In the conflict resolution, conflict handling system that enables to handle with the conflict efficiently and effectively is important. The system is comprised of conflict management culture, conflict handling skill, conflict handling process, and conflict monitoring and improvement parts (Lam and Chin, 2005). Conflict Resolution provides instruction on conflict resolution through an interactive relationship. A number of different models have been proposed with which to classify responses to conflict. Thomas (1976) conceptualized five conflict-handling styles as (1) competitive—one partner seeks to dominate the process, without regard for the others, (2) collaborative— partners seek to understand their differences and achieve a mutually beneficial solution., (3) avoidant— the conflict is recognized to exist but is suppressed by one or more parties, or handled by withdrawal., (4) accommodative— a partner becomes self-sacrificing to appease another, and places the interests of the other above their own., and (5) sharing models— each partner makes some concessions in order to reach a compromise for resolution conflict. According to Griffin (1990: 535-536), managers used one of the following conflict resolution strategies; avoidance, smoothing, compromise, and confrontation. Avoidance approach is simply to ignore the conflict and hope it will go away. It is sometimes effective in the short run, but it does little to resolve long run or acute conflict. Smoothing is minimizing the conflict and telling everyone that things will “get better.” Compromise can work if it is used with care, but in most compromise situations someone wins and someone loses. The confrontation approach to conflict resolution involves bringing the parties together to confront the conflict. Newstrom and Davis (1997: 318-319) repeated the same strategies with some minor differences; Avoiding,

smoothing, forcing (using power tactics to achieve a win), compromising (searching for middle ground), confronting (facing the conflict directly and working it through to a mutually satisfactory resolution).

Textile-based conflict resolution means how to deal with conflict between supply chain partners. In order to manage conflict in the supply chain, Hau (1997) recommended that managers must create a more trusting relationship, enhance communication, and accurately measure gains and an investment in collaborative efforts. Johnston et al. (2004) emphasized that higher levels of inter-organizational cooperative behaviors such as shared planning and flexibility in coordinating activities were found to be strongly linked to the supplier's trust and less conflict in supply chain. Bradford et al. (2004) emphasized that negative effects of conflict can be reduced by the use of the appropriate conflict management approaches. Collaboration, coordination, problem solving mechanisms systems and early supplier involvement in the design of products can provide better communications among supply chain partners, solve operational conflicts in supply chain, and facilitate better cooperation. Especially, effective communication enhances mutual understanding among companies in supply chain. Barutçu and Tanyeri (2004) offered the development of Strategic Supplier Alliances for better supplier-producer-distributor-buyer integration and less supply chain-based conflicts and problems. Kumar and Dissel (1996) emphasized the importance of conflict management approach in the supply chain with the analogy of peace and diplomacy. Companies seeking to build and sustain successful supply chain need to recognize and implement the roles of corporate statesmen, diplomats, and peace observers who not only seek out build peace agreements and treaties (i.e., negotiate, design, and implement technical) but also guard against misunderstandings, misinterpretations, and perceived or real betrayals that may lead to the disintegration of the relationships. Blackhurst et al. (2008) presented a methodology, extending the concept of basic Petri Nets, to discover supply chain conflict before they occur and cause detrimental effects to system performance. The approach involves linking hierarchical levels of the supply chain system and detecting conflicts occurring when the single entities, each optimized for its own operations, are combined together in a supply chain. These conflicts are not obvious or intuitive in examining the single entities of the supply chain, but when integrated the conflicts are discovered by the methodology.

RESEARCH FOR CONFLICT MANAGEMENT IN THE TEXTILE SUPPLY CHAIN FROM EXPORTER PERSPECTIVES

The global textile supply chain is a world-wide network of suppliers, manufacturers, warehouses, distribution centers and retailers through which cotton are acquired, transformed and delivered to customers as textile products. There may be many processes, materials, suppliers and customers (final customers, retailers or hotels etc.) on information and product (material/ machines/textile products) flow in the textile supply chain. Another set of common terms in the supply chain language are upstream and downstream partners in the supply chain. In the case of textile industry, the upstream suppliers consist of manufacturing and processing textile products, the downstream suppliers hand concerns the distribution channel's functions where the product passes through to the final wholesaler/customer.

If the managers fail to manage the entire textile supply chain without any conflicts between the partners, the supply chain cannot work efficiently. As a matter of fact, conflict is inevitable in every organizations, companies and supply chain. However, it is important to search what are the sources of conflict, how the managers of textile companies handle with, and resolve these conflicts. However, little attention has been given to identifying differences between upstream and downstream supply-chain based conflict. In addition to identify the sources and resolutions of the conflicts, the findings of this survey contribute to determine the differences between upstream and downstream textile supply chain-based conflicts. A questionnaire survey was developed and pilot tested so as to test the following alternative hypotheses:

H₁: The sources of conflict are different between upstream and downstream supply chain.

H₂: The methods of conflict resolution are different between upstream and downstream supply chain.

Research Methodology

Data for this research was collected through survey methodology from the managers of the textile exporters in Denizli, Turkey. The questionnaire was developed and adapted from the existing studies (Thomas, 1976; Bradford et al., 2004; Arend et al., 2005; Lam et al., 2007) and self-created. Before being conducted, the questionnaire was pre-tested on three managers in order to construct validity of measurement scales.

Sample size is determined as 125 questionnaires because of the time and cost limitations. Judgmental sampling, one of the non-probability sampling methods, is used to select 25 textile exporters and 125 respondents in Denizli, Turkey. 125 questionnaires were distributed to textile companies. 95 questionnaires returned and 87 of them were usable for the final data analysis. In the questionnaire, there were 14 questions. In the first section, there were 4 questions provided respondents' positions, profiles of the company (sizes, types and their supplied products and services). In the second section, there were 2 questions provided attitudes towards supply chain-based conflicts (5-point scale, 1-strongly disagree, 5-strongly agree) and whether the conflict occurs or not. In the third section, there were 8 questions and 58 items about supplier/customer selections, the sources of conflicts and the resolutions of conflict for downstream and upstream partners separately. In this section, the respondents were asked to rank the factors supplier/customer selection from the most-preferred to the least-preferred with an ordinal measurement scale (not analyzed in this paper), also asked to indicate on a 5-point scale how often conflict had occurred in their supply chain activities (1-never, 5-always) and which strategies had been used to solve supply chain-based conflict (1- never, 5-always) in upstream and downstream suppliers separately. SPSS 16.0 for Windows were used to analyze survey data. Descriptive data analysis was used to analyze data collected from survey. The hypotheses are empirically tested by independent samples t-tests. The reliability of the questionnaires was assessed by the Cronbach alpha reliability coefficient. Reliability value calculated 0,826 and exceeded the suggested value of 0,70. This survey is delimited in two ways. Firstly, instead of personality-based, conflicts are studied on the supply chain-based. Secondly, the pilot survey is conducted in Denizli, Turkey due to limited time.

Research Results

Table 1 provides the characteristics of respondents and companies of the sample. In terms of the respondents' positions, among the 87 respondents, 21,8% were general managers, 18,4% were purchase managers, 19,5% were operation managers, and 8% marked the others were finance and accounting managers. In terms of the company sizes, there are 37 companies employing less than 200 workers, 18 companies employing between 201 and 400 workers, 16 companies employing between 801 and 1200 workers. In terms of the supplied products and services from downstream partners, among 87 companies, 94,3% (82 companies) are providing logistics and transportation services, 90,8% (79 companies) are providing Cotton & Thread, 75,9% (66 companies) are providing Painting & Printing and 5,7% (5 companies) are providing Packaging and Security services from their textile supply chain partners. Moreover, among the 87 companies, 28,7% has between 5001 and 10000 square meters, and 25,3% has between 1001 and 5000 square meters production areas.

Table 1: The characteristics of respondents and companies

Variable	N	%	Variable	N	%
<i>Respondent's positions</i>			<i>Supplied products and services</i>		
Owners	15	17,2	Cotton & Thread	79	90,8
General Managers	19	21,8	Weaving & Knitting	75	86,2
Operation Managers	17	19,5	Painting & Printing	66	75,9
Purchasing Managers	16	18,4	Sewing	44	50,6
Marketing& Export Managers	13	14,9	Logistics	82	94,3
Others	7	8,0	Others	5	5,7
<i>The number of workers</i>			<i>The production area</i>		
≤ 200	37	42,5	≤ 1000 square meters	4	4,6
201-400	18	20,7	1001-5000 square meters	22	25,3
401-800	12	13,8	5001-10000 square meters	25	28,7
801-1200	16	18,4	10001-15000 square meters	21	24,1
≥ 1201	4	4,6	≥ 15001 square meters	15	17,2

According to survey results, 72 of the 87 companies are in a conflict with their supply chain partners, and 15 of them are not. Given the survey results, it appears that there are many conflicts on the textile supply chain. As seen in Table 2, this result is also supported by respondents' attitudes towards supply chain-based conflicts. The respondents of the survey believe that the textile supply chain-based conflict is inevitable between supply chain partners. Besides, they manage the textile supply chain-based conflict successfully in their management control areas. They also agree that the conflict can degrade their performance. However, they consider that their partners do not manage the textile supply chain-based conflict successfully as much as they manage.

Table 2: Attitudes towards supply chain-based conflict

Attitude statements*	Mean	Std. Deviation
a. The conflicts are inevitable between companies in the textile supply chains.	3,9625	,86337
b. The conflicts in our management control areas are managed very well.	4,0875	,67868
c. The conflicts can degrade the performance of the textile supply chain.	3,6000	1,19704
d. The managers with whom we are disagreement handle conflict very well.	3,1000	1,01383

*Scale: 1. Strongly Disagree - 5 Strongly Agree

It is crucial to understand the sources of the conflicts before using strategies to solve them. The sources of supply chain-based conflicts with downstream and upstream partners are presented in Table 3. As the statistics make clear, the fact that supply chain-based conflict exists, and the levels of the supply chain-based conflict differ considerably in terms of their sources. The main sources of conflict with downstream partners are price changes, last minute changes in orders, substandard performance for delivery and quality, demand for faster delivery, delayed payment, volume changes in orders, by whom logistics/transportation cost will be paid, and order cancellations. The main sources of conflict with upstream partners are demand for faster delivery, last minute changes in orders, price changes, substandard performance for delivery and quality, volume changes in orders and lack of cooperation. Thus, conflict is common between the supply chain partners, and there are different types of conflicts in the textile supply chain. The underlying sources of most conflicts are price changes for downstream partners, the demand for faster delivery from upstream partners and last minute changes in their orders for both of them.

Table 3: The sources of conflict in downstream and upstream partners

The sources of conflict*	Downstream Partners		Upstream Partners		t**	p
	Mean	Std. Deviation	Mean	Std. Deviation		
a. Changes in price	3,2375	,83049	2,6625	,87067	4,274	,000***
b. Changes at the last minute	2,8750	1,11803	2,9872	,81374	-,720	,473
c. Changes in volume	2,3500	,90148	2,4375	1,06550	-,561	,576
d. Faster delivery	2,6625	1,09016	3,1375	1,11086	-2,730	,007***
e. Order cancellations	2,1000	,94935	1,8875	,77938	1,547	,124
f. Substandard performance	2,8125	1,17024	2,2875	1,05775	2,977	,003***
g. Delayed payment	2,4250	1,06468	1,9250	1,07650	2,954	,004***
h. Poor communication channels	1,9250	,68943	1,9625	,81821	-,313	,754
i. Value and goal differences	1,9125	,55561	1,9500	,96653	-,301	,764
j. Personality clashes	1,8125	,81277	1,9375	,84709	-,952	,342
k. Lack of cooperation	2,0375	,84858	2,0250	1,21150	,076	,940
l. Noncompliance policies	1,9375	,81666	1,5625	,79307	2,946	,004***
m. Friction between managers/owners	1,6250	,60326	1,4250	,68943	1,953	,053
n. The cost of logistics/transportation	2,1125	1,10228	1,7500	1,01258	2,166	,032***

* Scale: 1. Never - 5. Always

** Equal variances assumed

*** $p \leq 0,05$

Although conflict is common between textile supply chain partners, and there are some kinds of conflicts arisen in the supply chain, it is also important to compare the sources of conflicts between downstream and upstream partners. In testing H_{1i} , to compare the sources of conflicts, independent-samples T-tests were performed to determine the differences between them. The results of testing on the main differences of them are presented in Table 3. According to statistical analysis, some sources of conflict appear to display notable differences. For example, a price change, substandard product and service quality performance, delayed payment, non-compliance company rules and policies and the logistics/transportation costs in the downstream supply chain are more important reasons to come into conflict than upstream supply chain. In contrast, demand for faster delivery in the upstream supply chain is more important reason to conflict than downstream supply chain. As a result, the alternative hypotheses such as H_{1a} , H_{1d} , H_{1f} , H_{1g} , H_{1l} and H_{1n} are accepted. Findings indicate that in comparison to downstream partners, the level of conflicts with upstream partner is lower. Consequently, the sources of textile supply chain-based conflicts are different between downstream and upstream partners.

Managing supply chain-conflict is one of the major responsibilities of the textile managers, and is an important skill to use when working as supply chain partners. Thus, the textile supply chain-based conflict ought to be managed either resolved or used beneficially. As seen in Table 4, respondents have tried to solve the supply

chain-conflicts rather than ignore and avoid them. The main resolution methods, a range of methods for alleviating or eliminating sources of conflict, with downstream partners preferred by textile managers are compromising, sharing, smoothing, offering options, joint planning and competing, but methods such as handling authority and power, bargaining, collaborating, avoiding and forming strategic supplier alliance are the least methods preferred. However, the main resolution methods with upstream partners preferred by textile managers are sharing, compromising, offering options, developing trust, collaborating joint planning and smoothing. The respondents do not prefer to use conflict resolution methods with upstream partners such as avoiding, handling authority and power, forming supplier alliances and competing. Besides, sharing, each party making some concessions in order to reach the midway solutions, has been preferred for all supply chain partners. It is also important that avoiding conflict is one of the least preferred methods since it has some negative consequences.

Table 4: Conflict handling methods for downstream and upstream partners

Conflict handling methods*	Downstream Partners		Upstream Partners		t**	p
	Mean	Std. Deviation	Mean	Std. Deviation		
a. Competing	2,9750	1,00599	2,1625	1,08434	4,913	,000***
b. Sharing	3,4000	,94935	3,4500	1,21071	-,291	,772
c. Compromising	3,5250	1,05513	3,4000	1,27884	,674	,501
d. Avoiding	1,7375	,88223	1,4250	,56870	2,663	,009***
e. Handling authority and power	2,5000	1,01881	1,7125	,79863	5,441	,000***
f. Collaborating	2,9500	1,33027	3,3625	1,10515	-2,133	,034***
g. Offering options	3,1625	1,11881	3,4250	1,32908	-1,351	,178
h. Bargaining	2,2875	,94392	2,3125	1,23856	-,144	,886
i. Smoothing	3,3875	1,24772	3,2375	1,38018	,721	,472
j. Developing trust	2,9125	1,37052	3,3875	1,38247	-2,182	,031***
k. Joint planning	3,0125	1,47977	3,3625	1,51986	-1,476	,142
l. Forming joint problem solving unit	2,0375	1,18475	2,3375	1,46645	-1,423	,157
m. Forming supplier alliances	1,7375	1,05235	2,1125	1,20120	-2,100	,037***

* Scale: 1. Never - 5. Always

** Equal variances assumed

*** $p \leq 0,05$

It is also important to compare the resolution methods between downstream and upstream partners. The results of testing the main differences of them are presented in Table 4. According to statistical analysis, the preferred conflict resolutions methods are different between downstream and upstream partners. For example, the some conflict handling methods for upstream partners such as competing, avoiding and handling authority and power are less preferred than downstream partners. In addition to this, developing trust and forming strategic supplier alliances are more preferred for upstream partners than downstream partners. As a result, the alternative hypotheses such as H_{2a} , H_{1d} , H_{2c} , H_{2f} , H_{2j} and H_{2m} are accepted. Based on a comparison of conflict resolution methods, it appears that the preferred conflict resolution methods in the textile supply chain-based conflicts are different between downstream and upstream partners. For example, competing with partners, a win-or-lose style of handling conflicts has been preferred from downstream partners rather than upstream partners. Offering options, third options for bringing the conflicting parties together, has been preferred more by upstream rather than downstream partners. The surveyed textile companies have used conflict resolutions methods such as avoiding and handling authority and power for downstream partners rather than upstream partners. Moreover, collaborating is one of the ideal ways of resolution to conflict, and respondents have been more willing to collaborate and work together for finding some solutions with upstream partners rather than downstream partners.

CONCLUSION

Supply chain management, conflict management and supply chain-based conflict management have become some of the popular topics. The growing importance of buyer-supplier relationship urges a need to study conflict and conflict management in the supply chain processes. To implement supply chain management processes successfully, managers who are responsible from supply chain should manage conflict occurred among companies, their suppliers, distributors, retailers and customers etc. Managers who do not manage conflict in supply chain effectively may possibly fail to manage their companies and lose not only money but also their suppliers or customers. Nowadays, the entire supply chain is becoming increasingly important in many industries, and this is especially right for the textile industry. One of the major components of valuable textile

supply chain management is effective communication, the ability to work effectively and the ability to handle conflicts between supply chain partners. In sum up, in order to high performance of supply chain, companies must operate supply chain functions in a coordinated manner. The ability to determine the sources of conflicts would be an important benefit because the conflict can degrade the performance of the textile supply chain.

According to survey results, the respondents consider that the textile supply chain-based conflict is unavoidable and common between the supply chain partners. They also believe that their partners do not manage the textile supply chain-based conflict successfully as much as they manage. There are different types of conflicts in the textile supply chain. The underlying sources of the most of the conflicts are price changes for downstream partners, the demand of faster delivery for upstream partners. Moreover, the sources of textile supply chain-based conflicts are different between downstream and upstream partners. Textile managers have applied various methods for supply chain-based conflict resolution such as compromising, sharing, smoothing, offering options, joint planning and competing in downstream supply chain. The methods such as sharing, compromising, offering options, developing trust are preferred to solve the conflicts with upstream suppliers. Avoiding of conflict is one of the least preferred methods both downstream and upstream partners. In terms of textile managers' conflict handling methods, there are some differences between upstream and downstream supply chains. Given the results of this survey, most of the respondents have their own conflict handling methods.

From the perspective of the textile exporter, some managerial implications seem very clear. Specifically, the literature and survey results help textile managers to be aware of the existence of supply chain based-conflict in their textile supply chain. They also enable practitioners and academicians to identify conflict management for both downstream and upstream suppliers separately, and conceptualize supply chain-based conflicts as their relative importance. Moreover, there are also several ideas for future researches. In further studies, (1) the relationship between the personalities (Pragmatist, Idealist, Hothead, Tyrant etc.) of managers and their effects on preferring conflict handling methods should be investigated, and (2) in terms of their priorities for choosing key downstream partners and upstream partners, the differences between the managers who face with the conflicts and the managers who do not face with the conflicts in their textile supply chains should be also analyzed.

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IMPACT OF RELATIONAL FACTORS ON SUPPLIERS PERFORMANCE: THE MALAYSIAN EXPERIENCE

**Mohammad Ikram Ahmed Fadzil,
Sharifah Faridah Syed Alwi and
Tengku Faziharudean Dato Feisal
University of Malaya, Malaysia**

ABSTRACT

A sustainable competitive advantage is now essential for survival in a hyper-competitive global marketplace, with its rapidly vanishing borders. The changing forces new firms or existing firms to manage resources better in order to be competitive. One option is to use global supply chain management that can optimize costs in an integrated fashion along the entire chain. Within SCM environment managing relationship is a central issue. This paper seeks to understand relational factors do have an impact on supplier performance. The findings show that relational factors such as trust, cooperation and communication are significant in influencing suppliers' performance.

BACKGROUND

This study seek to identify the relevant relational factors and examine their impact on influencing and improving supplier performance and whether they can be used as strategic tools that can provide competitive edge in a supply chain context. The following are research questions for the study.

- ❑ What is the impact of communication by the buyer on supplier's price, delivery and quality?
- ❑ What happens to supplier's price, delivery and quality when buyer instills a high level of trust for the supplier?
- ❑ What is the impact on supplier's performance when buyer is highly cooperative?
- ❑ In buyer and supplier relationship, there is a moderating effects on bargaining power of the buyer has on relational factors and supplier performance?
- ❑ Do the buying firms realize and practice using trust, communication and cooperation to influence supplier performance?

LITERATURE REVIEW

Sako (1992) and Hine (1994) studies implied that relationship and the factors that influence relationships also contributes greatly in affecting the success of Supply Chain Management (SCM) and network management practices. These factors enable better relationship management. They find that competence, trust and dependence should lead to supplier's competence, loyalty and compliance. The buyer's core management objective is to work with a supplier who can provide low cost, high quality and on-time delivery. Integrated supply chain management through enhanced relationship management brings about those competitive benefits because cycle time is reduced, product quality improved and labor costs can be lowered. In the end administrative complexities could also be reduced. Consequently the supply chain or network will be able to better compete with other less efficient supply chain.

There is also increasing recognition of the importance of the formation and maintenance of long-term relationships in marketing. Further investigation shows that such relationships require an effective use of

relationship management tools. Therefore the recognition together with use of relational tools is important it allows relationship to be managed in an effective manner. In the end the whole performance of firms in a specific supply chain in general and the suppliers are expected to improve and enhance. The methods by which relationships between organizational buyers and sellers might be expedited and better managed are being urgently researched. In the process firms are strongly advised by practitioners and academicians to develop and maintain overall quality of product, service and delivery as these are means of fostering loyalty in relationships with customers. Firms are even encouraged to implement programs and commit resources specifically to nurturing relationships with customers. Long-term and closer ties between different partners or organizations in a network are advocated by many recent marketing, management, logistics and purchasing thinkers (Ellram and Hendricks, 1995). The strength of network management lies in maintaining closer, better, more efficient and long-term relationships. Multiple benefits can be exploited from having such a relationship that can be used to increase firms efficiency and performance.

Meanwhile organizations need to understand factors that are important for the notion of SCM efficiency to succeed. Some of the factors common to SCM initiatives are the development of trust, commitment and long-term understanding in the supplier-manufacturer dyad. Sustaining the supply chain relationship is critical because it is probably the most fragile, and the most susceptible to breaking down. A weak link in any part of the supply chain can have disastrous consequences for all members of the chain (Ferguson, 2000). That is why strong relationship must be maintained. Many supplier-reseller relationships are highly asymmetrical. However asymmetry creates the potential for exploitation rather than cooperation since powerful firms have been known to take advantage of in dealing with their more vulnerable channel partners (Heide and John, 1988). This can hurt the efficiency of supply chain management. Therefore to better manage supply chain a relationship that manifested a high level of trust; commitment and stability have to be in place.

Researchers have defined relationship quality as being manifested in several distinct though related constructs (Crosby, Evans and Cowles, 1990). Although there is no consensus on which constructs comprise relationship quality, the critical importance of trust and involvement with the supplier in developing long-term relationships has been emphasized (Dwyer and Oh, 1987). Three constructs are critical at the present stage of our understanding of the process of relationship development. They are trust, commitment and disengagement (Anderson and Weitz, 1992). Therefore we can see that relationship quality encompasses cooperation, trust and commitment in information sharing or increased and efficient communication.

THEORETICAL AND HYPOTHESES DEVELOPMENT

Trust and supplier performance

Doney and Cannon (1997) found that trust is a criterion buyers use to evaluate suppliers. This is because developing trusting relationships represents an investment with long-term payoffs. Therefore salesperson's primary role is institutionalizing trust in the supplier firm. Marketing research on trust primarily focuses on suppliers. Trust of a supplier firm can influence long-term relationships. It can be jeopardized by a company representative who proves to be dishonest and unreliable. In marketing, much research on trust has been conducted in the context of distribution channel (Anderson and Narus, 1990; Morgan and Hunt, 1994) because high degree of interdependence is usually found in channel relationships. It is also where vulnerability due to uncertainty is high. Because of this importance of trust, it forms the basis of the hypotheses one to three:

Hypothesis 1: The level of trust between buyer and supplier has significant positive impact on supplier's pricing

Hypothesis 2: The level of trust between buyer and supplier has significant and positive impact on supplier's quality

Hypothesis 3: The level of trust between buyer and supplier has significant and positive impact on supplier's on-time delivery capability

Communication and supplier performance

According to Johnson and Johnson (1989), frequent, accurate and open communication is required to move the conversation past cooperating on simple task assignments to understandings the other's perspective and building trust. According to Lewicki and Bunker (1996), frequent and regular communications allows the exchange of information about each party's preferences, values and approaches to problems. It is important for enhanced relationship, leading to better supplier performance. Therefore it is reasonable to hypothesize that:

Hypotheses 4: The extent of the communication between buyer and supplier has significant positive impact on supplier's pricing

Hypothesis 5: The extent of the communication between buyer and supplier has significant positive impact on supplier providing quality results

Hypothesis 6: The extent of the communication between buyer and supplier has significant positive impact on supplier's on-time delivery capability

Cooperation and supplier performance

To help ensure long-term survival, organizations strive to control resources. However when the cost of controlling essential resources is prohibitive or if the risks are high, a firm may attempt to minimize its dependence and reduce uncertainty through formal or semiformal links with other firms (Heide, 1994). With this in mind it is of no surprise that the two parties would find it is mutually attractive to work together and achieve mutual and individual goals and lead to the formulation of the following hypotheses.

Hypothesis 7: The extent of cooperation between buyer and supplier has significant positive impact on supplier's pricing

Hypothesis 8: The extent of cooperation between buyer and supplier has significant positive impact on supplier providing quality results

Hypothesis 9: The extent of cooperation between buyer and supplier has significant positive impact on supplier's on-time delivery capability

Bargaining power in the buyer-seller relationship

Bargaining power as argued by Dowlatshahi (1999), has an impact on buyer-supplier relational factors and supplier performance which should be pertinent as well if expanded into a SCM environment. The following hypotheses are developed to test its moderating effect.

When bargaining power of buyer is high, they are more likely to be in a better position to dictate terms and conditions. Suppliers will be placed in position where they will have to supply better quality products, provide reliable delivery and a lower cost in order to maintain and secure future orders. Therefore we formulate these last set of hypotheses:

Hypothesis 10: A high bargaining power on the part of buyer will have a positive moderating effect on the relationship between trust and supplier performance.

Hypothesis 11: A high bargaining power on the part of buyer will have a positive moderating effect on the relationship between communication and supplier performance.

Hypothesis 12: A high bargaining power on the part of buyer will have a positive moderating effect on the relationship between cooperation and supplier performance.

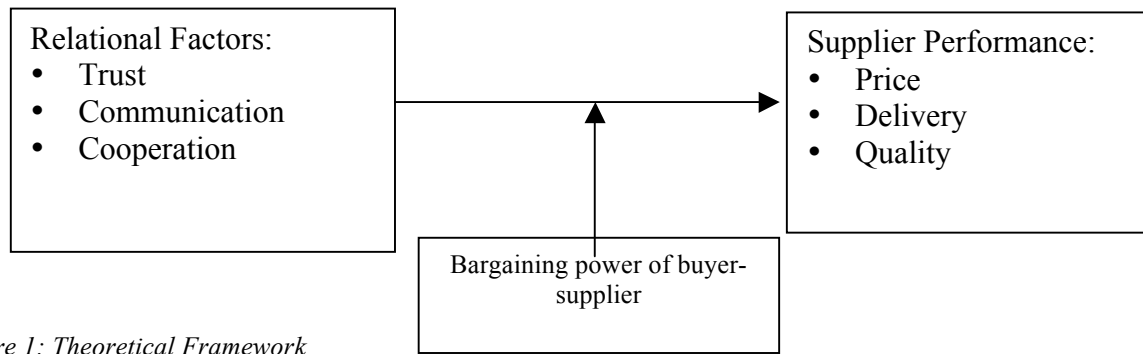


Figure 1: Theoretical Framework

METHODOLOGY

Trust

Five items are used to evaluate the level of trust in the dyadic relation. Two are extracted and adapted from Morgan and Hunt (1994), they are the level of confidence in the accuracy of information provided by the supplier and whether buyer is convinced that supplier had respect for any confidential information received from it. One on mutual expectation to reciprocate is adapted from Anderson and Weitz (1961), Anderson and Weitz (1989). The other two are from Kumar et al. (1992), asking whether buyer feels comfortable in sharing confidential information with the supplier even though it is apparently necessary to do so, and whether any reports asked by buyer is accurately filed by supplier and if it is on the time designated.

Communication

Extent of communication is operationalised through constant exchange of information with supplier, simultaneous and continuous exchange of idea with supplier, comfortable personal relationship of buyer with supplier, the ease of obtaining supplier's attention. The rest asked the buyer about the extent of significant disagreement in the working relationship, the frequency of conflict and the tension level. The first three were adopted from Anderson and Narus (1990). The last four are adapted from Kumar et al. (1992).

Cooperation

There are seven items used in the questionnaire to measure cooperation level between buyer and supplier. It is adopted in the first question to ask the interaction level between buying organization and the chosen supplier. The study from Heide and Miner (1992) was used to ask whether there are joint solving efforts directed at solving problems that may arise. The last four is focused on finding out the extent of supplier's involvement in new product or customization design, not violating terms and conditions of contract, whether supplier invested money to be more competent in servicing the buyer and whether supplier amasses knowledge about the features and attributes of the buyer's end product. They were sourced and adapted from Kumar and Stern (1992) and Turner, Le May, Hartley and Wood (2000).

Bargaining Power

The bargaining power measurement scale is adapted from items cited in Lean (1999). The questionnaire uses three questions to assess it. Each is aimed at gauging the bargaining power that is inherent in the buyer in its relationship with the supplier. A high bargaining power of the buyer means the opposite to the supplier. The items are the number of suppliers for the materials/components, the substitution available in the market for components/materials and the switching cost for the organization to source out for the components/materials.

Context of Study and Sample Characteristics

The unit of analysis is organization. The population of this study is firms and organisations located in Malaysia. Particular emphasis focused on manufacturing firms. As the study is about buyer-supplier relationship the unit of analysis is the buyer-supplier dyad. However the source of data from which the characteristics are obtained is the buyer. This is due to the fact that the performance of the dyad can best be described by the buying firm. Thus the

respondent for this study will come from the buying firms. Questionnaires were distributed either through e-mail or postal service to the firms previously identified. Questionnaires sent by post also contained returning self-addressed envelopes to facilitate responses. The questionnaires were directed to the person in charge of purchasing and procurement.

ANALYSIS AND RESULTS

Descriptive analysis

A breakdown of the analysis shows that the major responding firms are involved in the electronic industry. This does not come as a surprise as Malaysia has many electronic and electrical parts' firms operating in most of its industrial zones. Most of the respondent firms' are manufacturers, about 56.4% of the total response rate. Only 12.9 % are wholesalers and retailers. The firms are to a large extent locally owned while Japanese firms made up the largest foreign owned. The size of the respondent firms is mostly small to medium size. 25% of the respondent firms have had more than 5 years relationship with their respective suppliers. The firms have leverage to evaluate the performance of the suppliers. On the supplier's demography, most of them constitute 87% locally owned and providing the buyer with more than 40% of the total components used. About 20% of the components supplied are electronics and electrical parts. The second largest components supplied are related to automotive parts. In short the study evaluated local suppliers, providing at least 40% parts in the forms of electronic and electrical parts.

Statistical analysis

A multiple regression was used to test all the hypotheses. First the regression model needs to be tested for its validity. To be valid, the regression model must not violate any of the critical assumptions. The first assumption is that there is linear relationship between independent and dependant. The methods used is observing and graphing the scatterplots. In this case the shapes of the scattered points are within the normal pattern. No abnormal or tightly clustered patterns were observed. The first assumption of linearity and homogeneity of variance has not been violated.

The second assumption is the independence of the error terms. Examination of this assumption requires the interpretation of the Durbin-Watson values. The values achieved are 1.939, 1.934, 1.619 and 1.973 respectively. They are within the acceptable range that precludes any serious autocorrelation problem. Therefore the assumption of independence has not been violated.

The third assumption is of normality of the error term. The assumption is met since a bell shape is detected from the histogram and the normal probability plot shows the points are clustered along the diagonal line. This represents the normality of the error terms. Further checks of the VIF and Tolerance, the values are all within the acceptable range. Therefore there seems to be no multicollinearity problem, and the independent variables of trust, communication and cooperation can be assumed to be independent of each other.

The next level of analysis is determining the goodness of the regression model by observing its explanatory power. This is represented by R-square value. The value represents the level of variances observed in the overall performance explained by all the individual variables namely trust, communication and cooperation. For this model the R-square shows a positive explanation of 20.8% of the variation in overall performance. The value is considered significant as the F change value of 15.518 is statistically significant at 5% level.

The next analysis is establishing and verifying the effect of trust, communication and cooperation on overall performance. The values observed are the standardized coefficients or Beta in the regression equation. Only trust and cooperation seemed to have any significant positive relationship with overall performance, as their beta of 0.231 and 0.326 are significant at the 5% level (0.001 and 0.000 respectively). Cooperation seems to have the largest impact on overall performance. The result leads to the acceptance of hypothesis 1, 2, 3, 7, 8, 9 while hypothesis 4, 5, 6 has to be rejected.

For cost, only cooperation has a positive relationship as the Beta coefficients is statistically significant with the value of 0.358 (significant at the 5% level). For quality, trust and cooperation have positive impacts, their Beta coefficient values of 0.284 and 0.217 are statistically significant at the 5% level of significance. Trust seems to have the larger impact.

For delivery, it is positively affected by trust and cooperation. Communication does not have a statistically significant impact on delivery. This model has the highest explanatory power of 22.4% as compared to the other models.

The overall mean of bargaining power of buyer is 3.49 indicating that the extent of the level of bargaining power is moderate. The variation (standard deviation of 0.89) is moderately high indicating that there are variations amongst the respondents in term of bargaining power. In order to determine the impact of bargaining power of the buyer on the relation between relational factors and supplier performance, a hierarchical regression was carried out.

The analysis involves a 3-model regression analysis on overall performance, cost, quality and delivery. The first model seeks to establish the relationship of the all independent variables on overall performance. The second model saw the introduction of bargaining power as an independent variable, to observe its effect on overall performance. The final level analysis involves regressing overall performance as a function of trust, communication and cooperation, bargaining power and the interaction of bargaining power with each of the independent variables.

The relevant values needed to be analysed were the standardized coefficients (Beta), R-square, change in R-square and the significant change in F value. Model 2 has 26.1% explanatory power. The inclusion of bargaining power has increased the explanatory ability of the regression model by 0.11%, however this is not considered significant based on the F statistics at the 5% level. Observation of the Beta value also shows that bargaining power does not have any impact on overall performance. However, for Model 3, the analysis provided significant evidence that bargaining power moderates the relationship between communication and cooperation and supplier performance as the change in F value is significant.

For cost, bargaining power acts as a predictor variable from Model 2. Model 3 show significant moderation behaviour of bargaining power of the buyer on the relationship between cooperation and cost. Bargaining power shows to have a moderation effect on the relationship between trust and quality. In the case of delivery, there is evidence of moderation effect of bargaining power between cooperation and communication and delivery when the change in the F statistic is significant at 5% level and the explanatory power in Model 3 improves by 7.2% to an R-square of 36.7% from 29.5% in Model 2. The inclusion of interaction factors of bargaining power and communication has a positive impact whilst the interaction with cooperation seemed to have a negative effect.

The conclusion that can be made is that on overall performance, there is a moderating effect of bargaining power of the buyer on the relationship between communication and cooperation and supplier performance. For cost bargaining power have a moderating impact only between cooperation and cost. On quality, the moderating effect of bargaining power is between trust and quality only. Finally for delivery, the moderating impact is on the relationship between communication and cooperation and delivery. Thus, hypotheses 11 and 12 are accepted, while hypothesis 10 is partially accepted.

DISCUSSION AND CONCLUSION

There are several managerial implications that can be derived from this study. The first implication points to the building of trust by both buyer and supplier. Since trust is shown to have an influence and improve supplier performance, action and attitude that can promote trust should be encouraged. Buyer should not appear hesitant to invest time, money and human resources in project-specific or relationship investment or assets. Relationship-specific assets refers to adaptations in products and plant equipments that are dedicated to one degree or another, to the customer-partner. In short it is investments in plant or product modifications that are specific to their customer or supplier, marketing expenditures, adaptations to the areas of product, process and organization. Another trust promoting action is showing the willingness to share confidential information. The concept of reliability and accountability should be rigorously practiced. One manifestation is keeping to promises made either verbal or written and followed instituting procedural fairness.

Secondly increased communication should be in place by the buyer through engaging in more frequent interaction. There should be more a proactive when it comes to supplier relationship so as potential problems are quickly identified and avoided or resolved before it becomes a threat to the entire chain operations. Furthermore there should be willingness to share information that might not be relevant to their operations but of use and benefits to the supplier. Investment in improving communication technology should be of concern to the organizations.

Thirdly organizations must engage in activities that fosters closer and more intimate cooperation. Cooperative behaviours are reflected in showing their availability and readiness to solve the problems of their supplier while at the same time share risks and benefits with their supplier. Another reflection of cooperative behaviour is showing the ability to be conducive in receiving advice and suggestion and also able to provide advice and suggestion. Buyer and supplier should establish the norm and practice of sharing sources and resources.

By having higher level of trust, increased communication and closer cooperation, buyers and their suppliers may experienced better quality product and services that can be passed and transferred throughout their respective supply chain and the benefit enjoyed by all network partners so that in the end their supply chain may be equipped with the much sought after competitive edge.

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HUMAN RESOURCE MANAGEMENT AND ORGANIZATIONAL BEHAVIOR

EFFECTS OF CORE EMPLOYEES ON ORGANIZATIONAL CAPABILITIES AND FIRM PERFORMANCE

Oya Erdil
Hakan Kitapçı
Beyza Timurlenk

Gebze Institute of Technology, KOCAELİ, TURKEY

ABSTRACT

This study explores the impact of core employee characteristics on organizational capabilities and firm performance. The resource based view asserts that organizations with valuable and inimitable resources will attain competitive advantage and organizational performance. The effects of valuable and unique core employees on organizational capabilities namely managerial, technical capabilities and output based capabilities and overall firm performance are analysed in this study. We used a statistical methodology to test the relationships hypothesised in the research model. The results indicated a higher organizational capability and organizational performance for firms using the most valuable core employees.

Keywords: core employees, value, uniqueness, organizational capabilities, firm performance.

Theory and Hypotheses Development

Resource-based theory, one of the most widely accepted theories of strategic management and originally formalized in 1991, views the firm as a bundle of resources and emphasizes that competing firms possess heterogeneous resource bases (Song et al., 2007). It explains the importance of developing resources and capabilities which are valuable, rare, inimitable and non-substitutable. The attainment of such advantages will enable the firm to improve its short-term and long-term performance (Newbert, 2008). Although it is necessary for a firm to possess valuable and inimitable resources and capabilities, firms seeking a competitive advantage must also demonstrate the ability to alter them for full realization of their potential (Newbert, 2007). Therefore, resources are the substance of strategy because competitive advantage (CA) is a match between the organization's resources and capabilities and the environmental opportunities and risks it faces, and the objectives of the organization. They are considered to be the very essence of CA because a firm's ability to gain and preserve its profitability depends on its ability to defend its advantageous position that is related to its resources and capabilities (Carmeli, 2004).

Whereas resources usually are considered to be finite in supply and to diminish in value when shared with other parties, capabilities refer to the dynamic, non-finite, firm-specific and path dependent processes that are not obtainable in the market place, are difficult to copy, and are accumulated through long-term, continuous learning (Spanos and Prastacos, 2004). Hence, capabilities are seen as the ability to coordinate and deploy resources in order to achieve the firm's goals (McKelvie, Davidsson, 2009). This implies that while resources seldom lead to performance differences on their own, the application of resources (i.e. capabilities) is what causes performance differences. Capabilities are defined as complex bundles of skills and accumulated knowledge that enable firms to coordinate activities and make use of their assets (Day, 1994). Every business develops its own configuration of capabilities that is rooted in the realities of its competitive market, past commitments and anticipated requirements (Song and Benedetto, 2007). The resource-based view (RBV) of the firm explains how firms allocate their scarce resources to obtain and exploit competitive capabilities. Therefore, the firm that has the resources and abilities to put its capabilities to best use, and that invests in capabilities that complement the existing capability structure will be able to exploit its distinctive competences (Song and Benedetto, 2007).

Capabilities may enhance competitive advantage by preventing imitation. Organizational capabilities may be defined as the ability of a company to create and develop differentiating features and advantageous internal processes and structures (Lado and Wilson, 1994). To create economic value, sustain competitive advantage and achieve superior organizational performance, an organization requires a wide range of capabilities. Organizational capabilities can be grouped according to their orientation. One classification of organizational

capabilities is given as a set of dynamic capabilities, namely idea generation capabilities, market disruptiveness capabilities, new product development and new process development capabilities (McKelvie, Davidsson, 2009). In another study, Song and his colleagues (2007) focus on four capabilities; technology, IT, market-linking and marketing capabilities. Another classification of organizational capabilities focuses on managerial capabilities, technical capabilities and output-based capabilities (Turner and Crawford, 1994). In our study we operationalize this classification of capabilities which are given as managerial, technical and output based capabilities in order to test the hypotheses given in the research model investigating relationships between core employee characteristics, organizational capabilities and firm performance.

Human Capability and Key Employees

Development of human capital consistently enables superior performance (Gimeno et.al., 1997). Firms which attract highly educated and/or highly skilled workers, provide skill-development and cross-training develop difficult to trade and imitate, scarce and appropriable specialized human capital assets (Amit and Shoemaker, 1993). Attracting and retaining high-quality personnel is considered a critical innovation strategy, particularly for high-tech firms (Branzei and Vertinsky, 2006).

The HR component of organizational capabilities usually includes the knowledge, expertise, talents, creativity, and skills of a firm's personnel. The RBV asserts that the unique skills and experiences of internally-based personnel can give the firm a competitive advantage. This can be achieved by recruiting, and maintaining a well-trained labor force and managers whose knowledge, skills and abilities serve as a source of innovation (Zahra and Nielsen, 2002).

Employee human capital of the firm refers to the knowledge, skills and abilities that employees possess and use in their work. Studies of employee human capital have found direct positive effects on firm performance (McKelvie and Davidsson, 2009). Empirical studies have examined the role of employees as an enabling factor which allows the firm to acquire and apply new knowledge (Celuch et al., 2002) to allow other resources and capabilities to be developed fully (Ranft and Lord, 2002). Therefore, firms should base employment sourcing decisions on the degree to which skills contribute to the core capabilities of the firm. The resource-based perspective encourages a shift toward the employee skills and their relative contribution to value creation. This theory suggests that core employee skills should be developed and maintained internally specifically based on value-creating potential and uniqueness of employees (Lepak and Snell, 1999).

The Value of Human Capital

If a resource or capability yields the potential to enable a firm to reduce costs and/or respond to environmental opportunities and threats, it is valuable, and to the extent that a firm is able to effectively deploy such a resource it will attain competitive advantage (Barney, 1991). Employee skills as core assets are vital and often require continual internal development. A core employee can be considered to be the worker who is specifying the core activity in the firm and performs the organization's base operations related to making the product or providing the service (Lopez-Cabrales et al., 2006). These skills must somehow contribute toward consumer-based perceptions of value. Thus employees can add value if they can help firms offer lower costs or provide increased benefits to consumers (Lepak and Snell, 1999). Irwin et al., (1998) measure value as the degree to which the resource in question can increase customers, occupancy, and reputation and then measure the dependent variable. As such, in this study it is formally proposed that valuable core employees is positively related to firm performance.

Uniqueness of Core Employees

Employee uniqueness is defined as the extent to which a particular form of human capital is idiosyncratic to a particular firm. Human capital uniqueness can be measured with an index that includes the difficulty of replacing the employees and the difficulty that competitors would have in duplicating them (Lopez-Cabrales et al., 2006). Specifically, such practices as team-based production, and unique operational procedures that lead to enhanced social complexity, and the development of tacit knowledge will enhance the uniqueness of a firm's human capital. Because these skills often involve idiosyncratic learning processes, firms are not likely to find these skills in the open labor market (Lepak and Snell, 1999). In this study it is proposed that unique employees are positively related to firm capabilities and firm performance.

Organizational Capabilities

A great deal of theoretical work began to emerge regarding the types of processes to which resources must be subjected in order to exploit their latent value such as core capabilities, competences and organizational capabilities (Newbert, 2007). In his study, Barney (1991) argued that in addition to simply possessing valuable, rare, inimitable and unique resources, a firm also needed to be organized in such a manner that it could exploit the full potential of those resources if it was to attain a competitive advantage. He further suggested that the implementation skills that could ensure proper resource exploitation included such organizational components as structure, control systems and compensation policies. While resources are no doubt important to a firm's competitive advantage, firms need to also possess and be able to replicate routines to gain competitive advantage and maintain organizational performance. In this study, organizational capabilities are classified into three groups according to their orientations based on the research of various authors: managerial capabilities, technical capabilities and output-based capabilities (Lopez-Cabrales et al., 2006, Lado and Wilson, 1994).

Managerial Capabilities

Managerial capabilities were defined as possessing the ability to create a strategic vision and identity for the company, communicate these throughout the organization, and encourage the workforce to achieve them (Lopez-Cabrales et al., 2006). Recent theoretical developments suggest that organizational capabilities evolve over time, and several organizational and environmental levers contribute to their founding, development, maturation and alteration. Managerial decisions are acknowledged as some of the most critical antecedents of capability transformation (Helfat and Peteraf, 2003). Suitable strategic choices help firms overcome the constraints of their existing resource endowments by guiding the development of extant skills and by facilitating the emergence of new capabilities (Branzei and Vertinsky, 2006). The literature suggests four main managerial capabilities: reinforcement of the organizational culture, strategic vision, obtaining employee potential, and flexible design (Lado and Wilson, 1994). In this study, we use this classification of managerial capabilities with the above stated four dimensions.

Technical Capabilities

Technical capabilities concern the manufacturing processes, technology, new product development, production facilities in the industry. These skills are contained within the organization and are activated by market, competitor, and external challenges (Song et al., 2007). These are organizational capabilities that contribute at the time of turning inputs into outputs. They refer to the technological aspects of the creation, production, and development of products and services. The technical capability for innovation is key to carrying out new combinations of resources, methods, systems and processes to generate new products and services (Lopez-Cabrales et al., 2006). There is no shortage of literature that illustrates the importance of knowledge, and innovation for superior firm performance (Cho and Pucik, 2005). The literature also suggests that CEs with firm specific knowledge and skills contribute to technical innovation because they possess the proper set of behaviors for making improvements in current operations (Lopez-Cabrales et al., 2006).

Output-based Capabilities

A subset of capabilities in any firm involves creating physical or intangible assets that provide value to the customer. These capabilities are called output-based (Lado and Wilson, 2006). In this study, we used three organizational capabilities from the customer viewpoint: quality orientation, customer loyalty, and product diversity based upon the study of Lopez-Cabrales et al.,(2006). A good company reputation may arise from a firm's dedication to creating and delivering products or services of superior quality that may yield competitive advantage in the market. Firms also promote close relationships with customers that will in turn generate high sales and returns relative to competitors. Product diversity enables the firms to anticipate customers' needs. CEs play a critical role in developing output-based capabilities.

Firm Performance

Conceptualization and measurement of organizational performance is a thorny topic in strategy research and many different variables have been used. Organizational constructs include such variables as competitive advantage, market share, profit, costs, sales revenue and customer satisfaction. Authors classify these into two

wide categories: objective measures (such as return on assets) and perceptual measures (comparisons of self with competitors). When conducting surveys managers have been more open to offering their general views than to offering precise quantitative data (Montes et al., 2005). We tested the model using a perceptual measure of financial and operative performance in which each respondent rated his or her organization's performance relative to that of other firms in the sector.

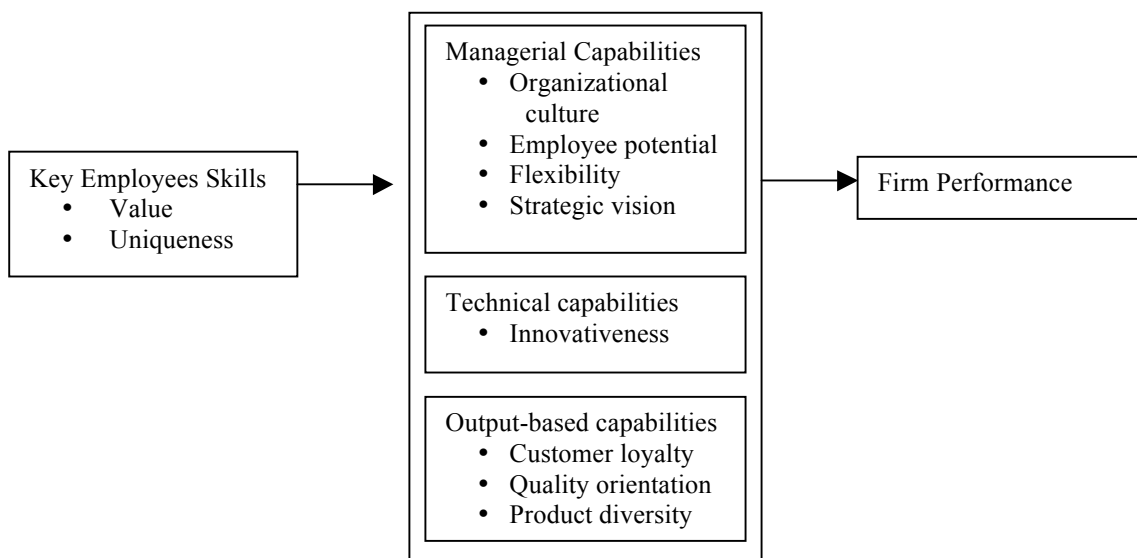
Research Methodology

Data Collection and Sample

The study employs a questionnaire survey approach to collect data for testing the validity of the model and research hypotheses. Variables in the questionnaire include key employee capability, managerial capabilities, technical capabilities, outcome based capabilities and firm performance. All dependent and independent variables are measured by seven-point Likert-type responses ranging from “strongly disagree” to “strongly agree”. The population for the study is the firms located in Gebze and Tuzla industrial zone. A list of randomly selected 300 firms has been taken as the sample for the survey. The final sample included 104 firms (34% response rate).

As for the characteristics of the final sample, the majority of the respondents were male (54,8%), and mean respondent age was 33 years old, and 64,4% of the respondents were at least college graduates.

Figure 1: The proposed model of the study



Measures

Following the distinction of previous researchers (e.g. Barney, 1991) the present study adopts two dimensions of key employee characteristics including value and uniqueness. A 12-item scale to measure uniqueness and another 13-item scale to measure value based on the work of Lopez-Cabrales et al., (2006) is used in the empirical research. Drawing upon previous researches (e.g. Newbert, 2005; McKelvie and Davidsson, 2009) this study adopts three aspects of organizational capability including managerial capabilities, technical capabilities and outcome-based capabilities. The management capability construct consists of four dimensions including organizational culture, employee potential, flexibility and strategic vision measured with 6, 6, 5 and 5 questions respectively. Technical capability is limited to innovativeness and measured with a four-item scale. Output-based capabilities construct consists of 3 dimensions, namely customer loyalty, quality orientation and product diversity measured with 5 questions each. Lastly, firm performance construct consists of 7 items to indicate the extent of perceived overall firm performance compared to that of competitors. The scale is adopted from the research study conducted by Choi and Lee(2003).

Measurement Validation

Before testing the hypotheses, we performed principal factor analysis with varimax rotation. Core employee characteristics were loaded into two factors with 52% of variance explained. We entered 22 managerial capabilities items into a separate exploratory factor analysis. The resultant factor structure clearly reflected four managerial capabilities with 70% of variance explained. The second component of capabilities namely technical capabilities was loaded into one factor. The final capability component, output-based capabilities, was measured by 14 items producing three factors as expected and 64% of the variance is explained by the three factors. Lastly, seven items measuring firm performance was loaded into one factor explaining 54% of the variance.

The internal consistency measures (Cronbach's alpha) were obtained in order to assess the reliability of the measurement instruments. The alpha reliabilities of the factors were 0.89, 0.85, 0.70, 0.72, 0.69, 0.84, 0.81, 0.70, 0.83, and 0.83 respectively. Construct reliabilities for all measures exceeded the critical value of 0,70 suggesting that the measures are highly reliable except flexibility dimension with an alpha value of 39.96% which is far below the critical value of 70% and thus flexibility is excluded from the proposed model. Examination of the patterns of item-item correlations and regression models indicate conclusions for the hypotheses in the study.

Correlation Analysis

We further studied strength of the relationships between the variables included in the research model. Results of the correlation analysis indicate that value of core employees and uniqueness of core employees are correlated with all dimensions of organizational capabilities and with firm performance with the exception of product diversity dimension at 0.05 significance level. Organizational culture is correlated with strategic vision, use of employee potential, innovation, customer loyalty and quality orientation. Strategic vision is correlated with all of the variables. Obtaining employee potential is correlated with all other variables with the exception of product diversity at 0.01 and 0.05 significance levels.

Regression Analyses Results

We performed a series of regression analysis to explore the proposed relationships in our hypotheses. In regression analyses we modeled five separate regression equations (Model 1, 2, 3, 4 and 5). In all four models within the first group of analyses, value and uniqueness constitute independent variables. On the other hand dependent variables are Managerial Capabilities in Model 1, Technical Capabilities in model 2, Output-based Capabilities in model 3 and Firm Performance in model 4 and 5. All regression models are found to be statistically significant with ($F_{\text{Model-1}}=19,769$, $p < 0.01$; $F_{\text{Model-2}}=27,066$, $p < 0.01$; $F_{\text{Model-3}}=10,604$, $p < 0.01$; $F_{\text{Model-4}}=6,204$, $p < 0.01$; $F_{\text{Model-5}}=9,823$, $p < 0.01$). Results of the regression analyses are displayed in Table 1.

Table 1. Regression Analysis

Independents	Model 1 Managerial Capabilities		Model 2 Technical Capabilities		Model 3 Output-based Capabilities		Model 4 Firm Performance		Model 5 Firm Performance	
	β	Sig.	β	Sig.	β	Sig.	β	Sig.	β	Sig.
Value	0,476	0,000*	0,519	0,000*	0,380	0,000*	0,216	0,035**	-	-
Uniqueness	0,116	0,207	0,147	0,093	0,079	0,420	0,182	0,076	-	-
Customer loyalty	-	-	-	-	-	-	-	-	0,213	0,037**
Quality orientation	-	-	-	-	-	-	-	-	-0,293	0,002*
Product diversity	-	-	-	-	-	-	-	-	0,266	0,011**
<i>F</i>	19,769		27,066		10,604		6,204		9,823	
<i>R</i> ²	0,281		0,349		0,174		0,109		0,228	
<i>Sig.</i>	0,000*		0,000*		0,000*		0,003*		0,000*	

*Significant at the level of $P < 0,01$

**Significant at the level of $P < 0,05$

In the first four models, core employee value is found to be significantly and positively associated with managerial capabilities, technical capabilities, output-based capabilities and firm performance (Model 1, $\beta=0,476$, $p < 0.01$; Model 2, $\beta=0,519$, $p < 0.01$; Model 3, $\beta=0,380$, $p < 0.01$; Model 4, $\beta=0,216$, $p < 0.05$).

In model 5, customer loyalty, quality orientation and product diversity are considered as independent variables. Dependent variable is firm performance. Customer loyalty and product diversity are found to be positively associated with firm performance ($\beta=0,213$, $p < 0.05$; $\beta=0,266$, $p < 0.05$). Whereas quality orientation is found to be negatively associated with firm performance ($\beta=-0,293$, $p < 0.01$).

Conclusions and Discussion

Human capital within an organization includes knowledge, skills, abilities and perceptions of employees which maintains firm competitiveness and performance. This research study has revealed a link between core employee characteristics, organizational capabilities and firm performance. The results of this study imply that value of core employees seem to be the key to organizational capabilities and firm performance. This suggests that the organizations should focus on valuable employees in achieving business performance outcomes.

Lopez et al., (2006) found out that core employees value and uniqueness has a significant effect on organizational capabilities. Similarly, Choe and colleagues (2006) identified a positive relationship between employee skills, organizational structure and firm performance. In their research, Gatignon and Xuereb (1997) found the impact of human skills on firm performance. Therefore, in our study we tested the hypotheses stating that valuable and unique core employees will increase firm performance.

Regression analyses held in order to test the effect of valuable core employees on firm performance revealed a significant relationship whereas no significant relationship exists for the uniqueness. This result is inconsistent with the previous research. This might be due to the inclusion of the value and uniqueness characteristics as separate dimensions into the model rather than taking the two factors as one single dimension as is the case in some research models in the literature.

As with the organizational capabilities, the results of the research indicate a positive significant relationship between value of core employees and managerial capabilities. Furthermore, valuable core employees have been found to be significantly related to technical capabilities and output based capabilities with sub dimensions of quality orientation, customer loyalty and product diversity.

Resource based view deals with the assumption that organizational resources and competencies have a direct impact on firm performance (i.e., Baker and Sinkula, 2005). In this research study, organizational capabilities have been investigated under three sub-dimensions: managerial, technical and output-based capabilities. Research results indicate that output based capabilities with its three dimensions of customer loyalty, quality orientation, and product variety have a positive impact on firm performance which is consistent with previous research (i.e., Morgan et al., 2009).

Inconsistent with previous research (i.e., Hartog and Verburg, 2004), our findings indicate that there exists no significant relationship between sub-dimensions of managerial capabilities namely organizational culture, obtaining employee potential and flexibility and firm performance. Another surprising finding is that technical capabilities taken as innovativeness also was not found to be related to firm performance.

This result, inconsistent with the previous research might stem from the use of firm performance as dependent variable. Although most of the academics and managers consider firm performance as a basic factor for firm success, it does not always seem to be true for the RBV. Companies operating in a variety of businesses might be successful in gaining competitiveness in some areas still becoming not that much successful in some other areas. Therefore, measuring overall firm performance might reveal surprising conclusions in analysing the relationships between various business processes and firm specific resources. Furthermore, the firm still having resources and capabilities for attaining competitive advantage might not become in a position to make full use of these resources (Ray et al., 2004). Another reason for inconsistency might be the time period in which the research was conducted.

During the last financial crises period, firms probably have been able to get use of human potential which have been more available in labor market than before. Hence, these effects might have been influential in explaining the stronger impact of value of core employees rather than uniqueness on organizational capabilities and firm performance.

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MODERATOR EFFECTS ON HUMAN RESOURCE FLEXIBILITY AND INNOVATION

Angel Martínez-Sánchez
Manuela Pérez-Pérez
Silvia Abella-Garcés
María-José Vela-Jiménez

University of Zaragoza, Spain

ABSTRACT

This paper analyzes the relationship between external human resource flexibility and innovation with the moderator effects of inter-organizational technology cooperation, environmental (market) dynamism, and the use of flexible technology in Operations. We propose a conceptual model grounded on the resource-based view and dynamic capabilities of the firm that develops several research hypotheses. Logic and linear hierarchical regressions test the hypotheses with panel data in the period 2003-2006 collected from a sample of 1,626 Spanish industrial firms.

Keywords: Human Resources Flexibility; Innovation; Inter-organizational Cooperation; Market Dynamism; Flexible Technology.

INTRODUCTION

It is often claimed that innovation is one of the main factors underlying a country's international competitiveness, economic growth rate and employment performance (Stokey, 1995). Interest is increasingly focused on understanding the processes and determinants of innovation, adoption and diffusion within and between firms, industries and countries. A firm's capacity to innovate is the ability to adopt or implement new ideas, processes, or products successfully. This capacity enables the firm to respond more successfully to its environment and develop new capacities to achieve a competitive advantage and higher performance.

At the same time, global competition and expanding customer expectations creates the need for faster new product development to stay ahead from competition which requires greater combinations of innovation and flexibility. Among the factors influencing innovation, the relationship between human resource flexibility and innovation has received little attention. Human resource flexibility focuses on adapting employee attributes (such as skills or behaviours) to changing environmental conditions (Wright and Snell, 1998). This flexibility is important because it influences innovation in several ways. For instance, skill polyvalence enables employees to respond better to stimuli which have appeared previously by thinking of new ideas and introducing more products, more quickly than competitors.

However, prior research has not established consistent relationships between human resource flexibility and innovation. Whereas some theoretical perspectives and empirical research suggest the need to build and sustain committed and capable human resources, others argue that looser employment relationships could be beneficial for innovation because they would exert a discipline upon labour which counteracts complacency, and would also enable firms to gain access to external knowledge from contingent employees (Barney, 1995; Matusik and Hill, 1998; Newton, 1998; Storey et al., 2002). The failure to comprehensively analyze moderator effects could be one reason to explain these non-conclusive relationships.

The purpose and main contribution of this paper is the development of a conceptual model that links human resource flexibility and innovation with three moderator effects to reconcile prior non-conclusive findings: (1) inter-organizational cooperation in technological activities, (2) environmental (market) dynamism, and (3) the use of flexible technology in the production process. Several hypotheses are formulated and tested with panel data collected from a sample of 1,626 Spanish industrial firms in the period 2003-2006.

THEORY AND HYPOTHESES

Innovative products and processes are the ‘outgrowths’ of underlying resources and capabilities. Innovation depends not only on the firm’s ability to exploit its resources but on exploring new not yet existing or at least fully realized dynamic capabilities (Rothaermel and Hess, 2007). Capability theory (Teece et al., 1997) predicts that the firm’s ability to build and reconfigure internal and external competencies to respond to rapid changes in their environment lies at the centre of innovation. Some scholars (e.g., Wu, 2010) find that the explanatory power of the dynamic-capability view exceeds that of research-based view in volatile environments. Firms that possess dynamic capabilities can effectively enhance their competitive advantages, despite facing uncertain and turbulent environments.

Flexibility options have the potential to broaden the range of capabilities necessary to innovate. To attain the level of organizational flexibility that customers value (i.e., quick delivery of a variety of innovative, high-quality, low-cost products), firms must manage different types of flexibility. An overview of the literature reveals that the taxonomy of flexibility is very extensive, due to the fact that this concept is widely applied to different areas of the organization. This paper focuses the analysis on flexibility dimensions related to human resources and external relations because labour flexibility constitutes a platform to build other levels of flexibility (Karuppan, 2004; Upton, 1995) and because external relations are sources of knowledge that contribute to innovation.

Since the seminal contribution of Atkinson (1984) about the flexible firm, the literature distinguishes between internal and external human resource flexibility. Internal flexibility involves efforts to increase the firm’s ability to adjust to uncertainty by changing the internal labour market or work organization, whereas external flexibility uses changes in the external labour market through layoffs or temporary employees.

From the resource based view of the firm, it might be expected that emphasize secure, long-term and high-commitment-based employment policies, would be more conducive to innovation. On the contrary, flexible employment contracts, such as fixed-term contracts or external work arrangements, could damage innovation. Thus, Michie and Sheehan (2003) in a survey of 242 UK manufacturing organizations found that the use of short-term and temporary contracts was negatively correlated with all categories of innovation. Storey et al. (2002) also found that employers rarely used flexible working to achieve innovation in a large-scale survey of 2,700 UK companies.

However the increasing complexity of markets makes it difficult for firms to have all of the resources necessary to innovate. External technology sources are sometimes the only option for firms that wish to keep up-to-date. Barney (1999) has suggested that firms do not need to own all relevant capabilities to innovate, as long as they have sufficient access to them. While the capability to manage resources in the innovation process may be internal to the organization, the resources to be mobilized may be external – they are complementary assets.

This line of argument begins to suggest that even quite extensive use of flexible employment contracts may be compatible with the in-house capabilities of innovation in dynamic environments to ensure the presence of knowledge and technological resources that may be beyond existing internal capabilities. Matusik and Hill (1998) argue that contingent work, although so far mainly introduced for cost reasons, can be more positively used for the creation and accumulation of new knowledge. Externals may bring knowledge and industry best practices into a firm, and they may stimulate exploration of new processes and ideas outside the firm’s knowledge stock. For instance, Nesheim (2003) found in a sample of 26 Norwegian firms that firms in dynamic environments often use external personnel deliberately in core value-creation areas: the use of external arrangements in the core value-creation areas was positively related to innovation strategy.

There are even studies that challenge the assumption that the use of flexible employment (e.g., temporary contracts) will have negative consequences for innovation. For example, Guest et al. (1999) report that, overall, contingent workers displayed no differences in levels of motivation, organizational commitment or innovative behaviour compared with permanent employees. Indeed, the authors suggest that those on fixed term and temporary contracts, especially when they have chosen this form of employment, sometimes actually report a more positive ‘psychological contract’ and a potential higher propensity for innovation. Other scholars find positive relationships between flexible employment contracts and innovation but they suggest a different causal relationship because innovation may sometimes influence flexibility.

Prior research has established more consensus about the impact of internal human resource flexibility (e.g., functional flexibility) than about the influence of external human resource flexibility. Whereas some theoretical perspectives and empirical research suggest the need to build and sustain committed human resources with full-time and permanent contracts (Atkinson, 1984; Michie and Sheehan, 2003), others argue that looser employment relationships are beneficial to innovation (Nesheim, 2003). When properly planned and executed, firms that hire knowledge-intensive activities reduce innovation process obstacles and improve innovativeness (Huang et al., 2009). Mol et al. (2004) find that during periods of increased product innovation, firms intensify their global searching activity to obtain and combine knowledge from various specialised sources. Similarly, firms that conduct their own R&D and seek external knowledge related to their core competences can more effectively incorporate this external knowledge and use it to enhance innovativeness (Bierly et al., 2009).

Thus, firms concerned with developing innovations may acquire the services of consulting/contracting firms or universities/R&D centres. These external employees bring knowledge of occupational and industry best practices into the firm, and may stimulate exploration of ideas outside the firm's knowledge stock (Nesheim, 2003). This flexibility offers increased opportunities for potentially faster and lower-cost innovation to firms that develop their core competences and integrate outside knowledge properly. Hoecht and Trott (2006) indicate that hiring specific individuals with tightened legal contracts is a better option to benefit from external knowledge than participating in networks.

The non-conclusive findings can be explained by the absence of moderators in prior studies and because that research is mostly focused on the influence of single practices related to flexibility and on limited measures of innovation output (e.g., Arvanitis, 2005; Michie and Sheehan, 2003; Storey et al., 2002; Verdú-Jover et al., 2005). The failure to analyze moderators could explain the non-conclusive relationships between external human resource flexibility and innovation. This paper proposes a research model that links external human resource flexibility and innovation with three moderator effects to reconcile prior research: (1) inter-organizational cooperation in technological activities, (2) environmental (market) dynamism, and (3) the use of flexible technology in the manufacturing process.

Moderator effect of inter-organizational cooperation

The role of inter-organizational cooperation is important because as a firm increases interactions with other members in the supply chain, it may experience changes in its organizational flexibility. External cooperation may modify (increase or decrease) the need to be flexible internally and this could have implications for the firm's innovation performance. Firms that cooperate in new product development within the supply chain can broaden their knowledge base and contribute to diffuse innovative work practices along the supply chain. High-cooperation firms can access a broader knowledge base than low-cooperation firms, and therefore they may be more able to deploy a wider dispersion of knowledge through human resource flexibility that contributes to greater innovation performance.

Firms that combine resources can gain a competitive advantage over firms that are unable to do so, and this is viewed as one of the key benefits of inter-organizational cooperation. For instance, Baptista and Swann (1998) found that firms in clusters are more product-innovative. Gupta et al. (2000) also found that involvement of suppliers and participation in joint-venture/strategic alliances in the R&D process is greater in high-R&D effective organizations than in low R&D-effective.

Previous experiences of inter-organizational cooperation in the supply chain forge close bonds over time and increase confidence that exchange partners will pursue mutually compatible interests thereby facilitating the exchange of knowledge crucial for innovation performance. Accordingly, cooperation experience may foster supports adaptability, and deters opportunism that can positively contribute to innovation performance. Besides, inter-organizational cooperation will require the use of inter-organizational systems which other studies have demonstrated that provide flexibility in relationships with connected trading partners, improving responsiveness and other flexibility dimensions relevant to innovation (Golden and Powell, 2004).

Thus, inter-organizational cooperation may positively moderate the relationship between external human resource flexibility and innovation, which enables high-cooperation firms to benefit from external flexibility. This moderator effect could reconcile competitive results from the literature about the relationship between external flexibility and innovation. Employing contingent workers in combination with internal employees might be advantageous to upgrade the firm's knowledge stock. External from inter-organizational cooperation activities may also bring knowledge of occupational and industry best practices into a firm, and stimulate exploration of new processes and ideas outside the firm's knowledge stock. Thus, we propose:

Hypothesis H1. The firm's inter-organizational cooperation moderates positively the relationship between external flexibility and innovation performance.

Moderator effect of environmental dynamism

Environmental dynamism describes the rate and unpredictability of change in a firm's external environment. Dynamic environments are characterized by changes in technologies, and variations in customer preferences and product demand. In less dynamic environments, firms might efficiently fit their human resources with the demands of the competitive environment, by developing a human capital pool with a narrow range of skills. However, when the firm's operating environment is highly dynamic, previously developed capabilities may not be able to keep up with the frequent changes in technological conditions. The misfit between a firm's existing capabilities and the firm's operational environment may be mitigated if the firm can explore new areas and build new capabilities. Firms engaging in continuous exploration of knowledge are likely to have technical groups with varied perspectives and are then better able to reframe problems and overcome competitive traps when the environment demands organizational change (Wang and Li, 2008).

Firms in highly dynamic environments may also need more access to relevant external knowledge than firms in more stable environments. These externals may bring knowledge of occupational and industry best practices into the firm (Nesheim, 2003). External knowledge may leverage the internal stock of knowledge to develop innovations in order to overcome greater environmental uncertainty. At the same time, firms in highly dynamic environments may need to enhance the in-house dispersion of knowledge and the deployment of employees' skills through core innovation activities. Thus, we propose that external flexibility and innovation is more positively related in highly dynamic markets than in low-dynamic markets.

Hypothesis H2. The firm's environmental dynamism moderates positively the relationship between external flexibility and innovation performance.

Moderator effect of level of flexible technology in Operations

We also propose a positive moderator effect in the flexibility-innovation relationship of the level of flexible technology in the production process. Flexible production environments need more deployment and access to knowledge than traditional production environments in order to accommodate changes in the business environment and the increasingly demanding needs of well-informed customers. Flexible production technologies also require the use of flexible employment to accommodate changes in production and market demand enabled by increasing levels of flexibility in production technology. The development and implementation of flexible production technologies may need as well the access to external experts and consultants on the technological activities required to carry out such projects.

Hypothesis H3. The firm's level of flexible technology in the production process moderates positively the relationship between external flexibility and innovation performance.

METHODS

In order to test these hypotheses, we conducted an empirical study on Spanish industrial firms. We use the Survey of Business Strategies (SBS) questionnaire which contains a set of statements that permit the study of human resources and innovation for a great number of Spanish industrial firms. The SBS is an annual survey conducted by the SEPI Foundation (The SEPI Foundation is responsible for the survey design and control through the Economic Research programme) in collaboration with the Spanish Ministry of Industry with the objective of knowing the evolution of the characteristics and strategies of Spanish industrial firms. This survey contains information about markets, customers, products, employment, technological activities and economic-financial data of the firms. The reference population comprises industrial firms operating in Spain and with more than 10 employees, with representativeness being one of its characteristics. We develop a database with panel data from 1,626 industrial firms in the period 2003-2006.

The research hypotheses were tested through hierarchical regression analysis: we entered the control variables in the first step, the 'main effects' in the second step, and then the three interaction terms (cross products) in the next three consecutive steps. To reduce the potential negative effect of multicollinearity after introducing

interaction terms of moderator variables, we used Lance's (1988) residual centering technique to control this problem.

The dependent variable in the study is innovation performance at the firm level. We use three variables to run two logistic regressions and one linear regression: product innovation (dummy), process innovation (dummy), and number of granted patents. The independent variables are three measures of external flexibility: the percentage of temporary employees in the workforce, the use of R&D external employees from technology centres/contracting firms (dummy), and the outsourcing of R&D activities (dummy).

The three moderator variables are: inter-organizational cooperation in technological activities with customers, competitors, suppliers and R&D centres (categorical variable from 0 to 4), market dynamism (index of change in the marketplace), and flexible production technology (use of flexible production technologies – categorical variable from 0 to 6 that takes into account the number of flexible technologies implemented in the production process: robots, flexible manufacturing systems,...).

The regression analysis controls for: firm size (logarithm of number of employees), R&D effort (percentage of employees in the workforce), export-intensity (percentage of sales exported), the percentage of foreign capital, identity between firm ownership and control (dummy), firm age (number of years), and industry

RESULTS

Table 1 shows the results from the three regressions. The first model is a logistic regression for product innovation. Several control variables explain if the firm has developed a product innovation. Firm size, R&D effort, and firm ownership-control identity are positively related to product innovation. The industry is also significant. Regarding the independent variables, the percentage of temporary employment is negatively related to product innovation ($\beta = -1.569$; $p < 0.01$), whereas the use of R&D external employment ($\beta = 1.517$; $p < 0.01$) and R&D outsourcing ($\beta = 0.783$; $p < 0.01$) are positively related to product innovation.

There are three moderator effects analyzed in the logistic regression of product innovation. The first moderator is inter-organizational technology cooperation that is positively related to product innovation ($\beta = 0.796$; $p < 0.01$) which indicates that technological cooperation moderates partially the relationship of the independent variables. Thus, inter-organizational technology cooperation moderates negatively the relationship between R&D external employment and product innovation ($\beta = -0.333$; $p < 0.01$), as well as between R&D outsourcing and product innovation ($\beta = -0.155$; $p < 0.01$).

The second moderator of product innovation is market dynamism that is marginally related to product innovation ($\beta = 0.005$; $p < 0.1$). There is only one significant for R&D outsourcing and product innovation ($\beta = -0.002$; $p < 0.05$) that indicates a negative moderator effect. The other two dimensions of external flexibility are not moderated by market dynamism.

The third and last moderator in the logistic model of product innovation is the use of flexible production technology that is positively related to product innovation ($\beta = 0.124$; $p < 0.05$) which indicates that flexible technology moderates partially the relationship of the independent variables. Temporary employment is positively moderated by flexible production technology ($\beta = 0.349$; $p < 0.05$), whereas R&D outsourcing is negatively moderated ($\beta = -0.039$; $p < 0.05$).

The second logistic model of Table 1 explains process innovation. Firm size and firm ownership-control identity are positively related to process innovation. The industry is also significant. Regarding the independent variables, the percentage of temporary employment is marginally related to process innovation ($\beta = -0.874$; $p < 0.1$), whereas the use of R&D external employment ($\beta = 1.138$; $p < 0.01$) and R&D outsourcing ($\beta = 0.450$; $p < 0.01$) are positively related to process innovation.

The first moderator in the logistic model of process innovation -inter-organizational technology cooperation- is positively related to process innovation ($\beta = 0.592$; $p < 0.01$) which indicates that technological cooperation moderates partially the relationship of the independent variables. There is only one significant and negative moderator effect for R&D outsourcing and process innovation ($\beta = -0.094$; $p < 0.01$).

The second moderator of process innovation is market dynamism that is positively related to process innovation ($\beta = 0.010$; $p < 0.01$) which indicates that market dynamism moderates partially the relationship of the

independent variables. There are two significant moderator effects: a positive moderator for temporary employment ($\beta = 0.019$; $p < 0.01$) and a negative moderator for R&D outsourcing ($\beta = -0.002$; $p < 0.01$).

The third moderator in the logit model of process innovation is the use of flexible production technology that is positively related to process innovation ($\beta = 0.210$; $p < 0.01$) which indicates that flexible technology moderates partially the relationship of the independent variables. There is only a marginal moderator effect on the relationship between temporary employment and process innovation ($\beta = 0.233$; $p < 0.1$). The other two dimensions of external flexibility are not moderated by flexible production technology.

The last regression in Table 1 is a linear regression of patenting (number of patents) as a proxy of innovation performance. Firm size and R&D effort are control variables positively related to patenting whereas the percentage of foreign capital is negatively related. Regarding the independent variables, the use of R&D external employment ($\beta = -0.334$; $p < 0.01$) and R&D outsourcing ($\beta = -0.121$; $p < 0.01$) are negatively related to patenting.

The first moderator -inter-organizational technology cooperation- is negatively related to patenting ($\beta = -0.129$; $p < 0.01$) which indicates that technological cooperation moderates partially the relationship of the independent variables. Thus, inter-organizational technology cooperation moderates negatively the relationship between temporary employment and patenting ($\beta = -0.050$; $p < 0.01$), and moderates positively the relationship between R&D outsourcing and patenting ($\beta = 0.142$; $p < 0.01$).

The second moderator of patenting is market dynamism that is not significantly related which indicates that market dynamism fully moderates the relationship of the independent variables. There are significant and positive moderator effects for R&D external employment ($\beta = 0.225$; $p < 0.01$) and R&D outsourcing ($\beta = 0.072$; $p < 0.05$).

The third and last moderator in the linear model of patenting is the use of flexible production technology that is negatively marginally related to patenting ($\beta = -0.049$; $p < 0.1$). There is a marginally negative moderator effect on the relationship between temporary employment and patenting ($\beta = -0.041$; $p < 0.1$). The other two dimensions of external flexibility are positively moderated by flexible production technology: R&D external employment ($\beta = 0.300$; $p < 0.01$) and R&D outsourcing ($\beta = 0.135$; $p < 0.01$).

DISCUSSION AND CONCLUSIONS

This empirical research to a sample of 1,626 Spanish industrial firms finds that the percentage of temporary employment in the workforce is negatively related to product and process innovation at the firm level, whereas R&D outsourcing and the use of R&D external consultants and experts are positively related to both product and process innovation. However, the number of patents obtained from these innovation activities is negatively related to R&D outsourcing and R&D external experts.

These results indicate that we have to differentiate between the influence of external flexibility on the decision to innovate (dummy variables of product and process innovation), and on the intensity of innovation measured by a variable like the number of patents. Thus, firms with greater percentages of temporary employment have less probability to obtain product and process innovation. On the contrary, the access to external knowledge through R&D individual experts or outsourcing activities may positively contribute to a successful product or process innovation. However, the analysis of patenting indicates that external workplace flexibility is not beneficial to a higher intensity of innovation: firms with fewer patents have more access to R&D outsourcing and R&D external experts than firms that generate more patents as innovation output.

Therefore, we can deduct relevant managerial implications when we take into account moderator effects like those studied here that contribute to analyze the different impact of external workplace flexibility on innovation performance. First, the influence of inter-organizational technological cooperation compensates the influence, either positive or negative, of external workplace flexibility on the three studied measures of innovation output. Thus, there is a less positive effect of R&D external experts and R&D outsourcing on innovation in highly cooperative firms than in less cooperative firms. Inter-organizational cooperation in technological activities can be interpreted as a substitute for contractual access to external technological knowledge through R&D outsourcing and consultants. At the same time, the negative impact on patenting of R&D consultants and outsourcing is less important in highly cooperative firms than in low-cooperative firms which supports hypothesis H1. Inter-organizational cooperation may leverage the use of external work arrangements and R&D outsourcing to facilitate the creation and dissemination of knowledge that contributes to patenting. To benefit

from external relations, cooperative rather than adversarial relations in external transactions should be sought when the level of core-related change is high. As the cooperative relationship develops, the persons brought in may be given more vital tasks closer to the core of the firm. In combination with employees and internal competence, the firm's innovative capabilities may be strengthened. Thus, high-cooperation firms that use more external flexibility practices could develop more innovations faster and cheaper.

The second moderator effect of market dynamism positively moderates the relationship between R&D consultants/outsourcing and patenting which supports hypothesis H2. Firms in highly dynamic environments may benefit more from this external flexibility than firms in low-dynamic environments. Environmental dynamism may enhance the need to access relevant external knowledge, as well as the internal dispersion and deployment of knowledge through employees' skills and abilities. This external flexibility may contribute to the firm's patenting by enhancing the stock of knowledge and its flow through core employees towards innovation. However, the positive contribution of R&D outsourcing to a successful product or process innovation is less important in highly dynamic environments than in low-dynamic environments. This result indicates that low-dynamic environments are less uncertain to develop innovations with the support of external sources of technology, whereas firms in highly dynamic environments may be less reluctant to outsource R&D activities.

Finally, the third moderator effect is the level of flexible technology in the firm's production process. Flexible production technology moderates positively the relationship between temporary employment and product and process innovation which supports hypothesis H3. There is less probability to innovate in firms with larger percentages of temporary employment than in firms with lower temporary employment. However, when there is a greater use of flexible technologies in the production process, firms may benefit more from temporary employment than in more rigid production environments.

However, flexible production technology negatively moderates the relationship between outsourcing R&D activities and product and process innovation. This means that firms with less flexible production systems can benefit more from R&D outsourcing than firms with highly flexible production processes. This external workplace flexibility may help compensate the less dynamic internal environment that contributes to the deployment of knowledge through flexible processes. On the contrary, flexible production technology positively moderates the relationship between R&D consultants/outsourcing and patenting. Firms in highly flexible production environments may patent more intensively when outsource technological activities and have access to the best industrial practices through external experts. Flexible production technologies may enhance the need to access relevant external knowledge, as well as the internal dispersion and deployment of knowledge through employees' skills and abilities. This external flexibility may contribute to the firm's patenting by enhancing the stock of knowledge and its flow through core employees towards innovation.

The results reported and commented so far indicate that it is important to differentiate even further the implications of moderator effects on the impact of external human resource flexibility dimensions on firm performance. Our research suggests that future studies should separately formulate hypotheses for each dimension of external flexibility. It should also be necessary to differentiate among several dimensions of innovation performance, at least for dimensions focused on the decision to innovate and for dimensions that measure quantitative outputs of innovation.

Future studies could also extend the group of moderator effects that may influence the relationship between external human resource flexibility and firm performance. For instance, the level of product innovativeness may also be relevant. When an innovation is less familiar, a project team may require more face-to-face communication as opposed to that involved in more familiar tasks and smaller changes which would reinforce the positive impact of functional flexibility on innovation performance but it would reinforce the negative impact of external flexibility as well. Another extension could be to enlarge the moderator dimension of inter-organizational cooperation activities to include network measures like the intensity or formalization of the firm's relations with the other organizations in the supply chain.

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Table 1. Regression analysis of innovation performance in the period 2003-2006

	Logistic regression		Linear regression
	Product Innovation	Process Innovation	Number of patents
<i>Control variables</i>			
Firm size	0.069* (3.857)	0.123** (15.365)	0.103** (5.603)
R&D effort (R&D employees/total employees)	2.843** (16.647)	-0.614 (0.819)	0.129** (9.593)
Exports/Sales	0.002 (2.486)	-0.001 (0.916)	-0.024+ (1.718)
% Foreign capital	-0.002 (2.395)	0.000 (0.168)	-0.074** (5.345)
Firm ownership-control identity	0.214* (6.265)	0.339** (20.738)	-0.021 (1.580)
Firm age	0.002 (1.134)	-0.002 (1.743)	-0.006 (0.484)
Industry	-0.022** (9.566)	-0.024** (14.880)	-0.006 (0.464)
Year 2003	-0.016 (0.024)	-0.171+ (3.755)	0.009 (0.691)
Year 2004	0.094 (0.896)	-0.034 (0.152)	0.004 (0.332)
Year 2005	0.093 (1.059)	0.040 (0.252)	-0.005 (0.363)
% Temporary employment (TE)	-1.569** (7.322)	-0.874+ (3.581)	0.019 (0.759)
R&D external employment (RDEE)	1.517** (13.322)	1.138** (7.555)	-0.334** (8.270)
R&D outsourcing (RDO)	0.783** (99.633)	0.450** (36.351)	-0.121** (3.430)
Inter-organizational technology cooperation (TC)	0.796** (66.830)	0.592** (41.456)	-0.129** (3.025)
TE x TC	0.170 (0.597)	-0.191 (0.890)	-0.050** (2.667)
RDEE x TC	-0.333** (8.731)	-0.062 (0.298)	0.032 (1.247)
RDO x TC	-0.155** (27.343)	-0.094** (10.695)	0.142** (2.997)
Market dynamism (MD)	0.005+ (3.699)	0.010** (16.036)	-0.037 (1.517)
TE x MD	0.011 (2.174)	0.019** (8.874)	-0.004 (0.167)
RDEE x MD	0.005 (1.453)	0.002 (0.149)	0.225** (7.271)

RDO x MD	-0.002* (3.950)	-0.002** (7.480)	0.072* (2.116)
Flexible technology (FT)	0.124* (5.721)	0.210** (23.760)	-0.049+ (1.728)
TE x FT	0.349* (5.487)	0.233+ (3.540)	-0.041+ (1.901)
RDEE x FT	-0.116 (2.210)	-0.124 (2.581)	0.300** (10.545)
RDO x FT	-0.039* (5.255)	-0.010 (0.438)	0.135** (3.672)
Model statistics	R ² Nagelkerke=0.307 R ² Cox&Snell=0.198 Chi-square = 1436.05 p = 0.000 n = 1,626 firms	R ² Nagelkerke=0.225 R ² Cox&Snell=0.156 Chi-square = 1099.67 p = 0.000 n = 1,626 firms	Adjusted R ² =0.111 F = 33.43 p = 0.000 n = 1,626 firms

Notes: +p<0.1 *p<0.05 **p<0.01

Logit regressions – Wald values between parentheses

Linear regression – t-values between parentheses

THE IMPORTANCE OF PEOPLE CAPABILITY MATURITY MODEL IN A STRATEGIC APPROACH IN HUMAN RESOURCE MANAGEMENT AND BUSINESS EXCELLENCE

Hessam Zandhessami
Shahrzad Alijani
Zeinab Molaei
Ghazaleh Goudarzi
Qazvin Islamic Azad University, Iran

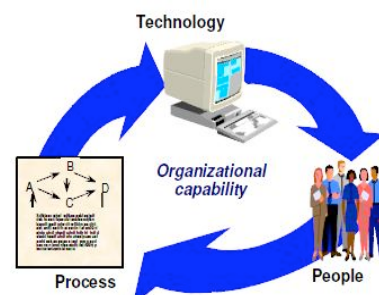
ABSTRACT

Nowadays quality management and Excellency is one of the important topics that are discussed in most organizations. There is no doubt that organization's success in achieving premier quality and organizational excellence is depended on innovative, expert and motivated human resources. With a strategic perspective it is possible to predict that establishing such a property wouldn't accessible without a continuous and integrated programming. Excellence in each organization is directly linked to its human resource excellence and top management can prepare growth and development situation for this valuable possession. Thus standardizing human resource management system at national and organizational level is a rational key to effective and efficient managing. In this people human capability maturity model was introduced, meanwhile the model dimensions and process area were explained as well as model importance in industrial organizations was analysed considering to group decision making and expert verdict technique. As a result, an integrated model of development and change will helps organizations managers to preparing business excellence.

Keyword: P-CMM, maturity model, human resource development, key process area

1) INTRODUCTION

Best workforce practices which lead to profits, sales, earnings, and dividends growth are usually considered to be integral to a total quality management (TQM) program, and are included as criteria in the Malcolm Baldrige National Quality Award (Commerce, 95). Nevertheless, most software organizations have improved their workforce practices with the help of the Capability Maturity ModelSM for Software (CMMSM) (Paulk, 95). These improvements have resulted in improved productivity, quality, and time to market (Herbsleb, 94). Even so, many of these organizations have discovered that their continued improvement requires significant changes in managing people, changes that are not fully accounted for in the CMM for Software. To date, most improvement programs for software organizations have emphasized process or technology, not people (Curtis, Hefley, Miller, 2001). Despite the importance of talent, human resources and other workforce practices in many organizations are often ad hoc and inconsistent, and software managers are insufficiently trained in performing them. Consequently, managers often expect their human resources departments to be responsible for the administration of most people-related practices. Compounding the problem, these practices are often applied with little analysis of their impact. In many cases, even when software organizations are aware of the problem and want to include people-related activities in their improvement programs, they don't know where or how to begin (Curtis, Hefley, Miller, 2001).



2) LITERATURE REVIEW

2.1) Evolution of human resource approaches

As people are one of a major factor in organizations, without them there would be no structure and identity of organizations. Thus there are several roles and approaches in human resource management which is illustrated in figure1.

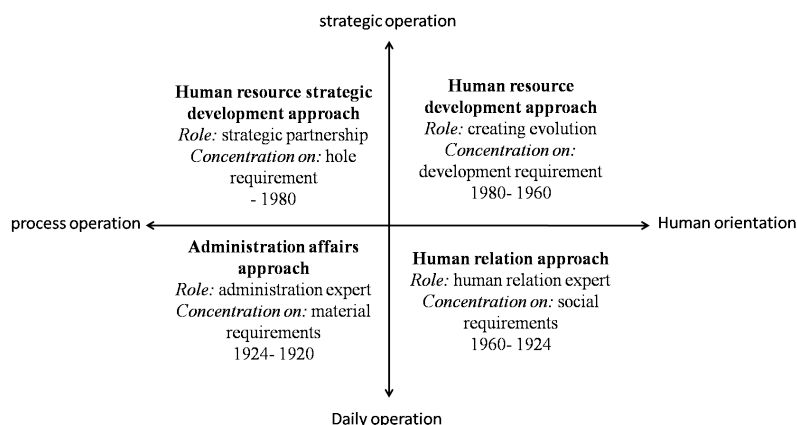


Figure1: Evolution of human resource approaches model

2.1.1) Administrative affairs approach:

This approach is discussed by focusing on daily operations and process orientation. It has mentioned organization by maintaining current situation sight and the only process in this approach is compensation process. Structural presentation of this approach is administrative affairs department in organizations which is only a documentation department.

2.1.2) Human resource approach:

This approach is discussed by conforming on human and daily operation. It supplies social requirements by crossing over material needs. Structural presentation of this approach is personnel relation or human resource observation department and its process presentation are job satisfaction, personnel moral and etc.

2.1.3) Human resource development approach:

This approach is concentrating on identifying and developing human capabilities by emphasizing on human orientation and strategic orientation. Elements of HRD are learning, altering and development. Structural presentation of that department is human resource development and its process presentation include; team learning, competencies design, management assessing center, exchanging learning, knowledge management, university institute and information technology.

2.1.4) Strategic human resource development approach:

If there is a link between all human resource processes and organization strategic orientations, strategic human resource development approach will discussed. This approach is a pattern or people adoption method based on some purposeful and defined practices in order to achieve strategic orientations and organizational performance increment. Structural presentation of this approach is excellence human resource committee or human resource department and its process representation is strategic human resource programming, human resource strategies and all previous approaches processes. Such this approach in human resource administration is developing organization capabilities based on strategic orientations in order to achieve competency advantage and value added for organization.

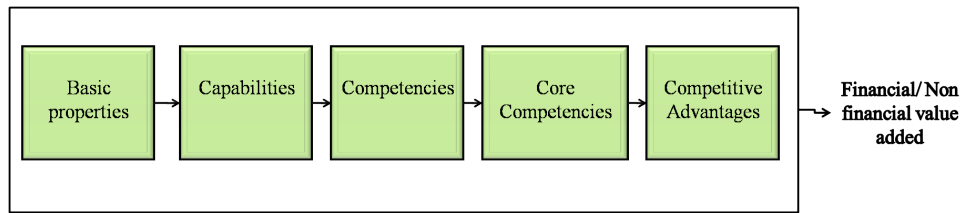


Figure2: Strategic value chain (Qafarian, Emadzadeh, 2005)

2.2) Definition of the P-CMM Maturity Levels

People capability maturity model guides organizations in establishing and improving their workforce practices through five evolutionary stages. Achieving each maturity level in the P-CMM transforms new capabilities for developing the knowledge and skills of the workforce, resulting in an overall increase in the talent of the organization. Maturity levels alter working culture through people development. Each maturity level provides a layer in the foundation for continuous improvement of an organization's workforce practices. In maturing from the Initial to the Repeatable level, the organization installs the discipline of performing the basic practices. In maturing to the Defined level, these practices are tailored to enhance the particular knowledge, skills, and work methods that best support the organization's business. In maturing to the Managed level, the organization develops competency-based, high-performance teams and empirically evaluates how effectively its workforce practices are meeting objectives. In maturing to the Optimizing level, the organization looks continually for innovative ways to improve its workforce capability and to support individuals in their pursuit of professional excellence (Curtis, Hefley, Miller, 2001).

2.2.1) Level 1 - The Initial Level

At the Initial level, the performance of workforce activities is inconsistent. The organization typically provides forms for activities such as performance appraisals or position requisitions, but offers little guidance or training in conducting the activities supported by these forms.

Typically managers have not been trained in performing most of their workforce responsibilities, so their ability to manage those who report to them is based on previous experience and their personal "people skills."

These organizations are not necessarily abusive or inconsiderate. Their problem is that they do not have the ability to systematically develop the competitive capability of their workforce.

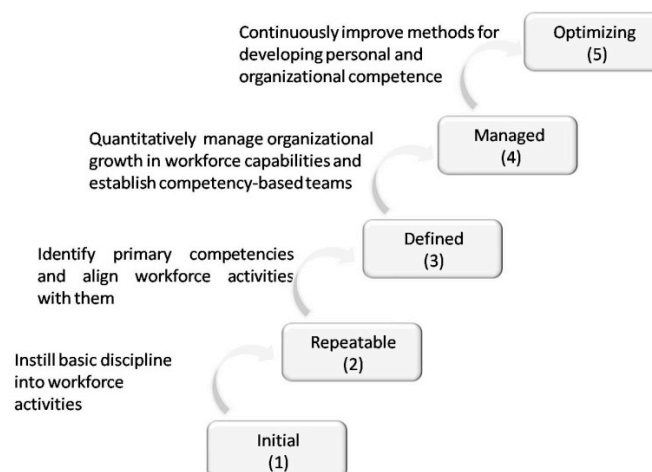


Figure3: P- CMM levels (Curtis, Hefley, Miller, 2001)

2.2.2) Level 2 - The Repeatable Level

The primary objectives at the Repeatable level are to eliminate problems that keep people from being able to perform their work responsibilities effectively and to establish a foundation of workforce practices that can be continuously improved in developing the workforce. The most frequent problems that keep people from being able to perform effectively in low maturity organizations include

- environmental distractions
- unclear performance objectives

- lack of relevant knowledge or skill
- poor communication

In maturing to the Repeatable level, an organization establishes policies that commit it to developing its people. A primary objective in achieving a repeatable capability is to establish a sense of responsibility and discipline in performing basic workforce practices. These practices ensure that the people in each unit will have the knowledge and skills required to perform their current assignment. When these practices are institutionalized, the organization has laid a foundation on which it can build improved methods and practices.

At the Repeatable level, those who have been assigned responsibility for performing workforce activities accept personal responsibility for ensuring that all workforce practices are implemented effectively. In doing so, they accept the growth and development of their staff as a primary responsibility of their position. When people take their workforce responsibilities seriously, they begin to develop repeatable methods for performing specific activities such as interviewing or establishing performance criteria. Individuals will notice greater consistency in the performance of workforce functions within their group, although different managers or groups may have individual variations in the specific methods they use (Curtis, Hefley, Miller, 2001).

2.2.3) Level 3 - The Defined Level

Organizations at the Repeatable level find that although they are performing basic workforce practices, there is inconsistency in how these practices are performed across units. The organization is not capitalizing on opportunities to standardize its best workforce practices, because it has not identified the common knowledge and skills needed across its units and the best practices to be used for developing them. The organization is motivated to achieve the Defined level in order to gain a strategic competitive advantage from its core competencies.

At the Defined level, the organization begins to adapt its workforce practices to the specific nature of its business. By analyzing the skills required by its workforce and the business functions they perform, the organization identifies the core competencies required to perform its business. The organization then adapts its workforce practices to develop the specific knowledge and skills that compose these core competencies.

A common organizational culture can develop at the Defined level, because the organization becomes focused on developing and rewarding a set of core competencies. This culture places importance on growing the organization's capability in its core competencies, and the entire workforce begins sharing responsibility for this growth (Curtis, Hefley, Miller, 2001).

2.2.4) Level 4 - The Managed Level

Organizations at the Defined level have established the foundation for continuously improving their workforce. At the Managed level, the organization takes the first steps in capitalizing on managing its core competencies as a strategic advantage. It sets quantitative objectives for growth in core competencies and for the alignment of performance across the individual, team, unit, and organizational levels. These measures establish the quantitative foundation for evaluating trends in the capability of the organization's workforce. Further, it seeks to maximize the effectiveness of applying these competencies by developing teams that integrate complementary knowledge and skills.

At the Managed level, high-performance teams composed of people with complementary knowledge and skills are developed where conditions support their functioning. Team-building activities are performed to improve the effectiveness of these teams. When applied to teams, workforce practices are tailored to support team development and performance.

Mentors are made available to both individuals and teams. Mentors use their experience to provide personal support, guidance, and some skill development. Mentors also provide another way to retain and disseminate lessons learned across the organization (Curtis, Hefley, Miller, 2001).

2.2.5) Level 5 - The Optimizing Level

At the Optimizing level, there is a continuous focus on improving individual competencies and finding innovative ways to improve workforce motivation and capability. The organization supports individuals' effort toward continuous development of personal competencies. Coaches are provided to support further development of personal or team competencies.

Data on the effectiveness of workforce practices are used to identify needs for innovative workforce practices or technologies. Innovative practices and technologies are evaluated and the most promising are used in exploratory trials. Successful innovations are then transferred into use throughout the organization.

The culture created in an Optimizing organization is one in which all members of the workforce are striving to improve their own, their team's, and their unit's knowledge, skills, and motivation in order to improve the

organization's overall performance. The workforce practices are honed to create a culture of performance excellence (Curtis, Hefley, Miller, 2001).

2.3) The Key Process Areas of the P-CMM

Figure 4 displays the key process areas for each of the five maturity levels in the P-CMM. Each *key process area* (KPA) identifies a cluster of related activities that, when performed collectively, achieve a set of goals considered important for enhancing workforce capability. Key process areas have been defined to reside at a single maturity level.

Key process areas identify the capabilities that must be institutionalized to achieve a maturity level. They describe the practices that an organization should implement to improve its workforce capability (Curtis, Hefley, Miller, 2001).

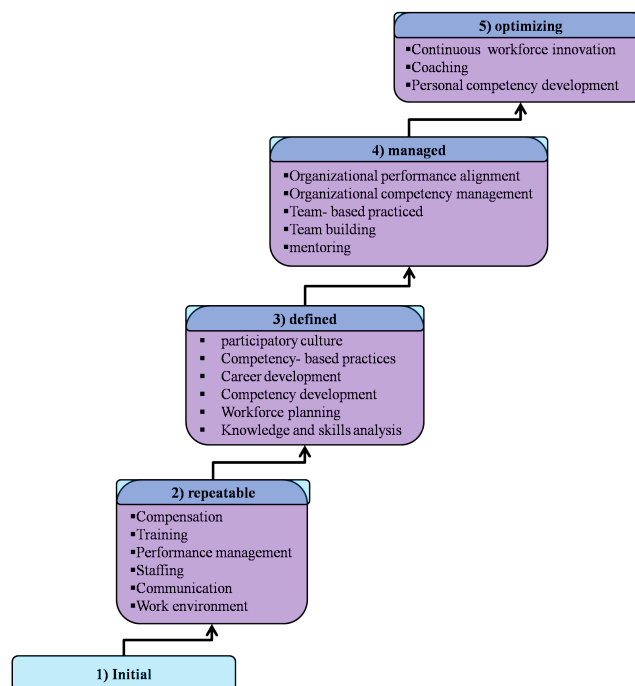


Figure4: the Key Process Areas of the P-CMM by Maturity Level (Curtis, Hefley, Miller, 2001)

2.3.1) Key Process Areas at the Repeatable Level

The key process areas at the Repeatable level focus on establishing basic workforce practices and eliminating problems that hinder work performance. Descriptions of each of the six key process areas at

Level 2 are presented below (Curtis, Hefley, Miller, 2001):

Key Process Areas at the Repeatable Level	
Work Environment	Work Environment is designed to establish and maintain working conditions that allow individuals to concentrate on their tasks without unnecessary or inappropriate distractions. Conditions which ensure that the work environment complies with all applicable laws and regulations, improvements to enhance performance are available, impediments to performance are removed and distractions are minimized.
Communication	Communication is designed to establish a social environment that supports effective interaction and to ensure that the workforce has the skills to share information and coordinate their activities efficiently. Communication involves establishing effective top-down and bottom-up communication mechanisms

	within the organization, and ensuring that all individuals have the necessary communications skills to perform their tasks, coordinate effectively, conduct meetings efficiently, and resolve problems.
Staffing	Staffing is designed to establish and use a formal process by which talent is recruited, selected, and transitioned into assignments in the organization. Recruiting involves identifying the knowledge and skill requirements for open positions, motivating all individuals to seek out qualified candidates, announcing the availability of positions to likely sources of candidates, and reviewing the effectiveness of recruiting efforts. Selection involves developing a list of qualified candidates, defining a selection strategy, identifying qualified candidates, thoroughly evaluating qualified candidates, and selecting the most qualified candidate. Transitioning involves attracting selected candidates, orienting them to the organization, and ensuring their successful transition into their new positions.
Performance Management	Performance management is designed to establish objective criteria against which unit and individual performance can be measured, to provide performance feedback, and to enhance performance continuously. Performance Management involves establishing objective criteria for unit and individual performance, discussing performance regularly and identifying ways to enhance it, providing periodic feedback on performance, identifying development needs, and systematically addressing performance problems or rewarding extraordinary performance.
Training	Training is designed to ensure that all individuals have the skills required to perform their assignments. Training involves identifying the skills required to perform critical tasks, identifying training needs within each unit, and ensuring that needed training is received.
Compensation	Compensation is designed to provide all individuals with remuneration and benefits based on their contribution and value to the organization. Compensation includes developing a documented compensation strategy, developing a plan for administering compensation, and making periodic adjustments to compensation based on performance.

2.3.2) Key Process Areas at the Defined Level

The key process areas at the Defined level address organizational issues, as the organization tailors its defined workforce practices to the core competencies required by its business environment. Descriptions of each of the six key process areas for Level 3 are given below (Curtis, Hefley, Miller, 2001):

Key Process Areas at the Defined Level	
Knowledge and Skills Analysis	Knowledge and Skills Analysis is designed to identify the knowledge and skills required to perform core business processes so that they may be developed and used as a basis for workforce practices. Knowledge and Skills Analysis involves identifying the business processes in which the organization must maintain competence, developing profiles of the knowledge and skills needed to perform these business functions, maintaining a knowledge and skills inventory, and identifying future knowledge and skill needs.
Workforce Planning	Workforce Planning is designed to coordinate workforce activities with current and future business needs at both the organizational and unit levels. Workforce Planning involves developing a strategic workforce plan that sets organization-wide objectives for competency development and workforce activities, and developing near-term plans to guide the workforce activities of each unit.
Competency Development	Competency Development is designed to constantly enhance the capability of the workforce to perform their assigned tasks and responsibilities. The core competencies identified in Knowledge and Skills Analysis and Workforce Planning provide the foundation for the organization's development and training program. Competency development involves establishing training and other development programs in each of the organization's core competencies. Development activities are designed to raise the level of knowledge and skill in the organization's current and anticipated core competencies.
Career Development	Career Development is designed to ensure that all individuals are motivated and are

	provided opportunities to develop new skills that enhance their ability to achieve career objectives. Career development includes discussing career options with each individual, developing a personal development plan, tracking progress against it, identifying training opportunities, and making assignments that enhance career objectives.
Competency-Based Practices	Competency-Based Practices is designed to ensure that all workforce practices are based in part on developing the knowledge and skills of the workforce. Competency-Based Practices involves recruiting against knowledge and skill needs, basing selection methods on assessing the knowledge and skills of candidates, assessing job performance against the tasks and roles assigned to the position, and basing compensation at least in part on growth in knowledge and skills.
Participatory Culture	Participatory Culture is designed to ensure a flow of information within the organization, to incorporate the knowledge of individuals into decision-making processes, and to gain their support for commitments. Establishing a participatory culture lays the foundation for building high-performance teams. Participatory Culture involves establishing effective communications among all levels of the organization, seeking input from individuals, involving individuals in making decisions and commitments, and communicating decisions to them.

2.3.3) Key Process Areas at the Managed Level

The key process areas at the Managed level focus on building competency based teams and establishing a quantitative understanding of trends in the development of knowledge and skills and in the alignment of performance across different levels of the organization. Analyses of the five key process areas at this level are highly interdependent, as described below (Curtis, Hefley, Miller, 2001):

Key Process Areas at the Managed Level	
Mentoring	Mentoring is designed to use the experience of the organization's workforce to provide personal support and guidance to other individuals or groups. This guidance can involve developing knowledge and skills, improving performance, handling difficult situations, and making career decisions. Mentoring involves setting objectives for a mentoring program, designing mentoring activities to achieve these objectives, selecting and training appropriate mentors, assigning mentors to individuals or groups, establishing mentoring relationships, and evaluating the effectiveness of the mentoring program.
Team Building	Team Building is designed to capitalize on opportunities to create teams that maximize the integration of diverse knowledge and skills to perform business functions. Team Building involves matching potential team members to the knowledge and skill requirements of the team, training all new members in team skills, defining objectives for team performance, tailoring standard processes for use by the team, and periodically reviewing team performance.
Team-Based Practices	Team-Based Practices is designed to tailor the organization's workforce practices to support the development, motivation, and functioning of teams. Team-Based Practices involves ensuring that the work environment supports team functions, setting performance criteria and reviewing team performance, involving team members in performing workforce activities, and reflecting team criteria in individual compensation decisions.
Organizational Competency Management	Organizational Competency Management is designed to increase the capability of the organization in its core competencies and to determine the effectiveness of its competency development activities in achieving specific competency growth goals. Organizational Competency Management involves setting measurable goals for growth in the organization's core competencies, defining and collecting data relevant to them, analyzing the impact of competency development activities on achieving these goals, and using the results to guide the application and improvement of competency development activities.
Organizational Performance	Organizational Performance Alignment is designed to enhance alignment of performance results at the individual, team, unit, and organizational levels with the

Alignment	appropriate goals and to quantitatively assess the effectiveness of workforce practices on achieving alignment. Organizational Performance Alignment involves setting measurable goals for aligning performance at the individual, team, unit, and organizational levels, defining the data and analyses, collecting the data, analyzing trends against objectives, acting on exceptional findings, analyzing the impact of people-related practices on performance alignment, and reporting results.
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2.3.4) Key Process Areas at the Optimizing Level

The key process areas at the Optimizing level cover the issues that both the organization and individuals must address in implementing continuous improvements in their capability. Descriptions of each of the three key process areas for Level 5 are given below (Curtis, Hefley, Miller, 2001):

Key Process Areas at the Optimizing Level	
Personal Competency Development	Personal Competency Development is designed to provide a foundation for professional self development. Personal Competency development consists of a voluntary program for continuously improving individual work processes. This program involves developing goals and plans for personal work activities, establishing and using defined personal processes, measuring and analyzing the effectiveness of these personal processes, and implementing improvements to them.
Coaching	Coaching is designed to provide expert assistance to enhance the performance of individuals or teams. Coaches engage in close relationships with individuals or teams to guide development of skills that improve performance. Coaching involves selecting appropriate coaches, analyzing data on personal or team performance, providing guidance on methods for improving performance, and evaluating progress toward goals for improving performance.
Continuous Workforce Innovation	Continuous Workforce Innovation is designed to identify and evaluate improved workforce practices and technologies, and implement the most promising ones throughout the organization. Continuous Workforce Innovation involves establishing a mechanism for proposing improvements in workforce activities, identifying needs for new practices and technologies, surveying and evaluating innovative practices and technologies, conducting exploratory trials of new practices and technologies, and implementing the most beneficial ones across the organization.

3) METHODOLOGY

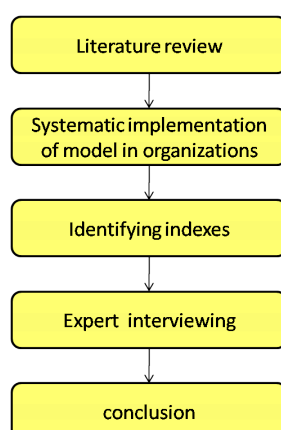


Figure5: Research methodology

In this research after reviewing the model concept and its levels, some industrial organization was selected for implementing the model. After gap analyzing and model implementation some industrial experts and clear-sighted in university who have the best knowledge about this field were chosen to identifying index for comparing the previous and current situation of organization and the main point in model implementation.

4) CONCLUSION

In many today evolutions after gap analysis and improvement project implementation, the distance to ideal and based point are depicted. Nevertheless the way by which can pass through it and how to pass a well as projects integration are ambiguous.

In maturity models, following maturity level identification and distance recognition to ideal point, projects are determined integrated and in sequence. Evolution managers and leaders can pass over the integrated and continues path by means of these modes references and guidance.

It is essential to have integrated sight in evolution and altering approach because improvement projects recommendation and cross over improvement and evolution without integrated and specified roadmap can have destroyable effects. Because without systematic approach

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sal@sei.cmu.edu , customer-relations@sei.cmu.edu.

<http://www.sei.cmu.edu>

<http://www.enterprise-ireland.com/Grow/People/ETP.htm>

carol.kubiki@borland.com

gkeeni@mumbai.tcs.co.in

UNIVERSITY STUDENT'S PERCEPTIONS AND ATTITUDES ABOUT TIME USING, AND HOW TO DEAL WITH THEIR DAILY LIFE STRESS: AN INVESTIGATION FROM TURKEY

Mehmet Sariisik
Sakarya University, Turkey
Hatice Guclu Nergis
Kocaeli University, Turkey
Ozgun Ergun
Sakarya University, Turkey

ABSTRACT

This purpose of the study to investigate the attitudes, thoughts and perceptions of fulltime university graduate students at tourism management department, about time management, time using and its effects on their daily life. Participants (N=235) were the students attending the department of Tourism Management Department of three different universities. A questionnaire with 4 sections was developed by applying to past researches in order to collect data for the study. As well as analysing arithmetic mean and standard deviation, ANOVA and independent samples t-test were used to point out differences about perceptions and attitudes of students depending on their characteristics as gender and age.

The results showed that most of the students believed the importance of time, and they could manage time by themselves. On the other hand, they pointed out they weren't given any information about how to manage the time, in their schools or daily life. In additionally, results indicated that there were meaningful differences among students about time using and procrastination behaviour.

Keywords: time management, time using, time pressure, stress, students

INTRODUCTION

Time can be explained as the whole of life and is irreversible, irreplaceable and also cannot be tied down by definition or confined inside a formula. Time management is important and different for everyone. It is not only how to get more out of a person's time, but also how to use his/her time effectively. In the recent years, many researchers and academicians has been interested in this subject. Most of them have tried to explain how to use people (students, workers, etc) time effectively and what it impacts on life and stress.

Technology and also globalisation affect all the people about using their time more efficient in their private or working life. Issues of time and timing have become more and more essential to managers and employees. Especially in the last two decades, as a result of expanding global competition and increased demands for immediate availability of products and services, the temporal dimension of work has become more important (Orlikowsky and Yates, 2002). Time management has been a bigger challenge in today's world where life seems to be a speeding train that stops for no one. It refers to a range of skills, tools, and techniques utilized to accomplish specific tasks, projects and goals. It means, people need to plan, to analyse of time spent, to set goals, to organize and also to monitor, because of being successful in their business life to reduce stresses effects. In last two decades, many researchers have begun to discuss procrastination behaviour with time using. In the past researches, some of researchers argued that procrastination behaviour affected people negatively; (Owens and Newbegin 1997; Tice and Baumeister 1997) while some did positively as Chu ve Choi (2005).

Tourism is a vital and an important part of the economy. Many countries try to get more revenues from tourism and to increase their GNP by using all resources they have. The development of the tourism industry has played an important part in the economy of the world in recent years. In 2008 there were 922 million tourists travelling to foreign countries (reflecting 2% growth year on year) where they spent US\$ 944 billion, according to the World Tourist Organization. Of course, 2009 is to bring a decline in tourism due to the recession - in the first four months of the year there were 8% less people travelling around our globe in comparison to the same months

of 2008. Still, by 2010 international arrivals are estimated to reach 1.6 billion. Since tourism is essentially a service industry it is labour intensive, it is a major employer. Turkey is an important tourism country by getting 30 million tourists and about 20 billion dollars every year. And Turkey is a unique country around the world with 2% rate of growth in tourism in 2009.

Due to the characteristics of tourism, many units operate 24 hours a day and 7 days a week. It makes the time fundamental and valuable for tourism workers. It is not easy to service the guests for workers and it causes some physiological pressures as stress. Many managers try to overcome this cause by using different kinds of techniques and skills for their personnel. In addition this, many researchers try to explain how to use time efficiently in business life in their investigation.

In the globalizing world, using the time effectively and efficiently depends on the efficient management of time. With his statement about the time management, which follows as, "Time is a scarce source, if it is not managed properly, then nothing is considered to have been managed well", Peter F. Drucker emphasized the importance of time management. (Mackenzie 1985: 14, Guven ve Yesil 2004: 59).

The importance of time management and time practices have been increasing day by day and especially there is lack of studies related to time management and academic achievement (Macan et al., 1990; Britton and Tesser, 1991; Trueman and Hartley, 1996) and also student's daily life. Numerous studies have investigated what time management means and how to refer to. For instance, Adams & Jex (1999), Jex & Elacqua (1999), Davis (2000), Macan, *et al.* (1990), Macan (1996) and Mudrack (1997) have referred to time management as techniques to manage time. While Orpen (1994), Slaven & Totterdell (1993), Woolfolk & Woolfolk (1986) have explained it as a technique for effective time use, especially having enough time to accomplish the many tasks required. Time management has been referred by others as a planning and allocating time (Burt & Kemp, 1994; Francis-Smythe & Robertson, 1999); the degree to which individuals perceive their use of time to be structured and purposive (Bond & Feather, 1988; Strongman & Burt, 2000; Vodanovich & Seib, 1997); a way of getting insight into time use (Koolhaas, *et al.*, 1992); a technique to increase the time available to pursue activities (King *et al.*, 1986); time management practices intended to maximize intellectual productivity (Britton & Tesser, 1991); an application of self-regulation processes in the temporal domain (Griffiths, 2003); coping behaviour in at-risk populations (King *et al.*, 1986); self-regulation strategies aimed at discussing plans, and their efficiency (Eilam & Aharon, 2003); the use of procedures that are designed to help the individual to achieve his or her desired goals (Hall & Hirsch, 1982); ways to assess the relative importance of activities through the development of a prioritization plan (Kaufman-Scarborough & Lindquist, 1999); clusters of behavior that are deemed to facilitate productivity and alleviate stress (Lay & Schouwenburg, 1993). Some authors gave no definition at all (Barling, Kelloway, & Cheung, 1996; Simons & Galotti, 1992; Trueman & Hartley, 1996). (Claessens, *et al.*, 2004)

Today the use of time or managing time is a critical issue both for individuals and organizations. The value of time management is not control of time per se, but the ways people can use time to improve their life (Mackenzie, 1990). An individual, who cannot effectively manage time, cannot manage his professional life and daily life (Gautschi, 1988). Time is the most precious resource available to any business owner and unless it is carefully managed, nothing else can be. It is well known fact that planning promotes performance (Hassanzadeh and Ebadi, 2007). Time management makes success by reducing stress, maintaining balance, increasing productivity and also setting and trying to reach goals. From this broadened perspective, people can see that the real value of time management is that it enhances their lives in all dimensions (Alay and Kocak, 2002).

The question of why time management is a problem for people has only recently attracted the attention of researchers. In particular, economists and psychologists (Fischer, 2001; Koch & Kleinmann, 2002; O'Donoghue & Rabin, 2001) have developed theoretical arguments about why time management is difficult for many people. Most studies have only examined zero-order correlations between time management behaviours and stress-related outcomes (Jex ve Elacqua 1999: 183). As Macan (1994) showed, however, time management behaviours are related to stress-related outcomes because they enhance employees' feelings of control over time. It is also possible that engaging in time management behaviour moderates the relation between stressors and strains, although only Lang's (1992) study has examined this possibility. Many work stressors lead to an increase in time demands on employees. For example, if an employee is faced with many job demands, or if job demands are conflicting, this will likely lead to increased time pressure.

At the University level, students are regarded as adults and are assumed therefore to be capable of making appropriate decisions on time allotment and utilization (Ogonor and Nwadiani, 2006). However, research findings have shown that students in tertiary institutions particularly first timers find management of time stressful and the most difficult aspect of university life to cope with. (Oquinonez *et al.* 1997). Dipboye and Phillips (1990) showed that university students who had more sense of purpose and structure in their use of time reported greater psychological well-being and more efficient habits of study. Also, Vodanovich and Seib (1997) illustrated that procrastinators tend to have weak, if any, structure in their time use. Despite the fact that it can be

measured time, the perception of time is a truly subjective experience (Macan, 1994). Lay (1990) found passive procrastinators to underestimate the overall time that was required to complete tasks. Consequently, they often failed to complete tasks on time, triggering the perception of reduced control of time (Lay & Schouwenburg, 1993).

For example, several researchers have linked time –management skills with successful college performance, including higher achievement scores and greater maturity (Britton & Tesser, 1991; Trueman & Hartley, 1996). There have been fewer examinations of issues of time -management with students who have disabilities. Manganello (1994) stressed the importance of such skills for older students with learning disabilities and provided strategies, including use of a time-management log, to promote better skills. Sowers, Rusch, Connis, and Cummings (1980) examined the impact of training in time –management skills with three adults who had mental retardation and basic time-telling abilities, finding that these individuals could be taught to engage in independent time-management (Davies *et al*, 2002)

METHOD

As an exploratory study, this research aimed to investigate the student’s perceptions and attitudes about time using, procrastination behaviour and evaluate how procrastination’s affected them on their daily life. Based on the relevant literature, several open-ended interviews were conducted with students studying at department of Tourism Management in three universities were called Istanbul, Kocaeli and Sakarya. Based on these interviews, a survey was drafted. The survey consisted of three sections. The first section included 5-point Likert scale (1; never, to 5; always) concerning 37 items about time using and time management behaviours. The second section included also 5-point Likert scale statements about the time pressure and its effects on daily life with 9 items. The statements in those two sections were taken from Choi and Moran (2009) and Stainton and *et al*, (2000). And the last sections were concerned about the characteristics of participants. A Cronbach’s Alfa reliability of 0.85 was obtained for the questionnaire in a pilot test with 45 students in Sakarya University and based on the test results, items in each section were revised, and some of them were removed.

The sample consisted of 235 full-time undergraduate students at Tourism Management Departments of Istanbul University, Kocaeli University and Sakarya University. The sampling frame chosen was especially from upper second class. Respondents were randomly selected. The main reason of selecting upper second class students was to choose the participants who had some experiences in tourism industry as trainees or workers. Thus, they could compare themselves both in schools and in industry about their time management skills and time using affects on stress.

Of the total 270 surveys prepared and were given to the students, 254 completed questionnaire were returned, yielding a response rate of 94%. Consent for participation was obtained prior to the survey. During the 2009 Spring Semester, data was collected from undergraduate students concerning with their attitudes and perceptions related to the time management skills and also the affects of time using on stress. Input was collected completely from those universities students (Kocaeli University with 72 students and Sakarya University with 106 students and Istanbul University with 57 students, totally 235 students).

The data gathered from the university students and they were tested by spss 13.0 program. Depending upon the certain distribution of data and using 5-point Likert scales for questions, parametric tests were applied. Student t-tests and ANOVA were used to examine gender and age differences in perceptions and attitudes of students about time management and time pressures.

FINDINGS

The characteristic of the subjects is given in Table 1. Of the total number of participants 45,1 (N=235) were from Sakarya University. Among the participants, 56 percent were female and 44 percent were male respectively. The age of participants ranged from 18 to 27, and the average age was 21,3 years with 91 percent of them were between 19 and 24. 94 of them were in 3rd or 4th class.

Table 1. The Characteristics of the Subjects in the Study.

	n	%	class	n	%
sex			prep	4	1,7
female	131	55,7	1	7	3,0
male	104	44,3	2	3	1,3
Total	235	100,0	3	153	65,1
age			4	68	28,9
18 and under	5	2,1	Total	235	100,0
19-21	98	41,7	University		
22-24	115	48,9	Istanbul U.	57	24,3
25-27	15	6,4	Kocaeli U.	72	30,6
36 or older	2	0,9	Sakarya U.	106	45,1
Total	235	100,0	Total	235	100,0

It can be seen on Table 2, the beliefs and thoughts of the students about time and time management also with their behaviours about how to use time effectively. 37 items are chosen and were given to the students to rate themselves on a five-point Likert scale ranging from 1 to 5. The results were listed in the table according to the scores of them. The results indicated that items such as “I prioritize the tasks I have to do during the day according to their importance and urgency”, “I know what my time is worth”, and “I have to wait for the right mood to do creative work” were given high scores (4 or up) by the students. On the other hand, items such as “I have difficulty finishing activities once I start them”, “I make a list of tasks to accomplish each day”, and “I have a list of long range personal objectives” were seen with low average scores.

Interestingly, about a half of them (44%) determined that they didn’t make a list of tasks, 63 percent interpreted that they concentrated on one important task a time. 50% of them expressed that they had no knowledge and any systems about how to solve their time management problems. 63 percent indicated that the worth of the time in their life.

To test preference differences about time management and time using habits among participants’ demographics, independent *t-test* and *ANOVA* were performed. And results of analysis showed that there were meaningful differences about student’s perceptions and attitudes between groups in demographic. While, “I postpone things which aren't very urgent, even though they may be”, was significantly higher among female respondents, “I have a list of long range personal objectives” and “I plan for tomorrow” were higher among male ($0,05 < p$) as a results of *t-test*. *ANOVA* analysis of our survey data shows that there are meaningful differences about students thoughts such as “I concentrate on only one important task at a time”, “I keep track of the use of my time (with devices such as a time log)”, “Unnecessary socializing takes up too much of my day”, “Most people would say they are fast starters”, “I have to wait for the right mood to do creative work”, “I know when to cut my losses” and “I invest time to make time” according to their age group ($0,05 < p$)

Table 2. Student’s thoughts about the time management and their behaviours how to use their time (N=235)

Items	Mean	St.Dev.
<i>I prioritize the tasks I have to do during the day according to their importance and urgency</i>	4,02	,998
<i>I know what my time is worth</i>	4,00	1,071
<i>I have to wait for the right mood to do creative work</i>	3,97	1,207
I do things right the first time	3,86	1,019
I do complete work. I finish what I start	3,80	1,085
I keep everything in its proper place at work	3,75	1,110
I concentrate on only one important task at a time	3,66	1,014
I obtain all the facts of every situation before I make a decision	3,65	,981
I schedule some time during the day for personal time alone (for planning, meditation, prayer, exercise)	3,64	1,038
I take care of my body	3,60	1,098

I do redundant "busy work" at one set time during the day	3,59	1,031
I tend to do the quick, easy, enjoyable things first	3,58	1,092
I can find quiet, non-interrupted time whenever I need it	3,56	1,121
I can develop a high energy level quickly and maintain it a long time	3,54	1,102
I produce many of my results with and through others	3,54	1,129
I plan for tomorrow	3,49	1,095
I don't procrastinate. I do it today when it needs to be done.	3,46	1,163
Most people would say they are fast starters	3,45	1,050
I know when to cut my losses	3,37	1,064
I allow enough recovery time to maintain my energy	3,35	1,016
I limit excessive socialization during business hours	3,35	1,073
I invest time to make time	3,28	1,040
I take a period of quiet time each day for concentration and creative thinking	3,26	1,062
I don't do well if I have to rush through a task	3,23	1,078
I make appointments with myself	3,20	2,473
I use techniques to maximize the value of my commute time	3,14	1,159
I have a list of all the smaller tasks, jobs, and assignments that need to be handled over the next few weeks	3,00	1,175
I do multiple trivial tasks at once (like signing letters while talking on the phone)	2,98	1,052
I take notes and don't rely on my memory	2,95	1,188
It's usually easy for me to say "no" to other people	2,94	1,256
I postpone things which aren't very urgent, even though they may be important	2,87	1,063
In order to make better use of my time, I intentionally put off some tasks	2,86	1,142
I don't have to interrupt the time I need to spend with my family in order to get church-related work done	2,83	1,194
I make a list of tasks to accomplish each day	2,66	1,118
I have a list of long range personal objectives	2,63	1,203
I've investigated how to solve time management problem	2,58	1,179
I have difficulty finishing activities once I start them	2,56	1,136

As presented in Table 3, a half of all participants had no information about time management and 53 percent of them pointed out that no information about time management were offered them while they worked in tourism establishments. Interestingly, more than half determined that their time was related to their duties and a higher percentage (80,9%) of them expressed that they believed the importance of time management. 58 percent of them pointed out that they could arrange their time about duties.

Table 3. Participants' thoughts about time management

	n	%
Do you have any information's about time management?		
yes	115	48,9
no	119	51,1
Total	234	100,0
Have any information's about time management offered you as a part of trainee in establishments you worked in?		
yes	38	16,8
no	126	53,2
a little bit	69	30,0
Total	233	100,0
Can you arrange your time about your duties?		
yes	136	58,0
no	11	4,7
sometimes	87	37,3
Total	234	100,0
Do you believe the importance of time management?		
yes	190	80,9
no	13	5,5
no idea	32	13,6
Total	235	100,0

The overall scores (mean) and standard deviations of 9 expressions about student's thoughts towards time pressure are shown in Table 4. 35% of them didn't feel themselves on time pressure, while 27 percent did. As it can be seen from the table, many students' thoughts such as "I can make my duties at time", "I can have a break if I need" and "I can find enough time for me" are with high arithmetic mean scores. According to answers of students, it can be said that they can control their time in their daily life. ANOVA analysis of our survey data shows that there are meaningful differences ($0,05 < p$) about students thoughts such as "I can find enough time for myself" and "I can make my duties at time" depend on their age level. The age group of 21-24 had given higher scores than younger participants. More than a half (57%) expressed that they could their duties at time. And female participant's scores are higher than others. According to the results of analysis, it can be expressed that many students could manage time and didn't feel any stresses on their daily life that was caused by time pressure.

Table 4. Thoughts of students about time using and time pressures on their daily life with ANOVA results between age groups. (N=235)

I can make my duties at time	3,55	1,009	3,191	,014
I can find enough time for myself	3,47	1,091	2,936	,021
I can have a break if I need	3,47	1,022		
I don't feel myself under time pressures	3,11	1,092		
I needn't to delay my duties	3,11	1,115		
I don't feel any pressures about long working hours	3,09	1,091		
I don't think about I must work fast	3,07	1,008		
I don't feel myself that I am under heavy work pressures	3,06	1,108		
I find the working hours flexible	2,96	1,085		

CONCLUSION

The first aim of the study was to point out student's thoughts and perceptions about concept of time management, and second was to investigate how to manage their time and time pressure effects on their daily life stress. When the results of the study are considered as a whole, it is seen that time management skills haven't been completely placed at universities. However, students' thoughts and perceptions emerged positively about time management. Interestingly, most of them indicated that they knew the worth of their time and they could prioritize their tasks. According to the t-test there is no significant difference between the means of female and male students. The similar results can be seen between age groups as a result of ANOVA. On the other hand, there are significant differences between age groups on time pressures and its effects on stress, while there is no significant difference between female and male students. Female participants had lower average means than male about finding enough time while the opposite situation on making duties at time.

As a result of study, it can be said that many students weren't given any information about time management skills and how to use their time effectively. So it should be developed and implemented some special programs to increase students' awareness of time and time management skills.

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THE EFFECTS OF MENTOR'S EMOTIONAL INTELLIGENCE IN RELATIONSHIP MANAGEMENT: THE EVALUATION OF LECTURERS' EMOTIONAL INTELLIGENCE'S EFFECTS

Ali Şahin Örnek
Tanju Çolakoğlu
Canakkale Onsekiz Mart University

ABSTRACT

The emotional intelligence literature is developing in these days. The applications of these studies are expanding day by day. The aim of this study is investigating the effect of emotional intelligence of leader over group member's perceptions and motivation. To prove the existence of such relation a model developed and applied over university students and academicians. The results show that some of the dimensions of Emotional Intelligence have significant effects over group member's perceptions and motivation.

Keywords: Emotional intelligence, leadership, relationship management, mentor perception, motivation.

INTRODUCTION

Contemporary studies show that emotional intelligence has the key role in understanding and satisfying the emotional expectations of the mankind. Therefore, the people having high emotional capabilities (managers, leaders, academicians etc) would be perceived positively and motivate the others (labor, team mates, students etc). With this presupposition the aim of this study is to research the relation between emotional intelligence, perception and motivation in work life. Evaluating the integration of this relation and maintaining with application results are important since these reflect the possible functionality of the subject in work life.

It's clear that managing human communities require emotional intelligence more than intelligence quotient. That's why emotional intelligence level is big factor in determining human relations. Unfortunately the need of specifying "which sectors of business needs more emotional intensity and which dimensions are required weightily for different areas of business" is still uncovered. Finding out how to obtain emotional qualifications of organization (by recruiting new members or educating the existing ones) would be easy by determining the emotional expectation of the human resources. With the perception of satisfied emotional expectations, high level of efficiency would surely be reached.

The purpose of the present study is to investigate the effects of emotional intelligence dimensions both in perception and motivation fields that may effectively be used in relationship management. To find out this we develop a model that measures both emotional intelligence and effects of emotional intelligence over perceptions and motivation.

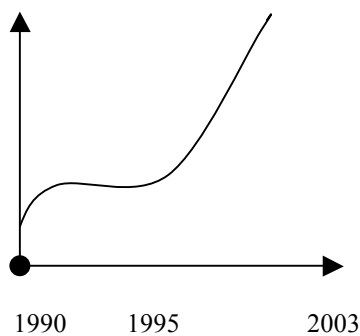
LITERATURE REVIEW

Emotional Intelligence

As mentioned, past studies show that emotional intelligence is more effective than intelligence quotient in all kinds of human relations including management. This is the reason why recent studies focus on sub dimensions of emotional intelligence. These studies are results of different emotional needs used in relationship management in social and business life. Every firm has its unique conditions forming differentiated emotional expectations. As an emotional human resource manager or a specialized emotional labor (probably an experienced or specialized subordinate) the emotional intelligence manager needs to know required emotional intelligence qualifications in order to satisfy them.

Publilius Syrus explained the importance of emotional management by “Rule your feelings, lest your feelings rule you” statement in the first century B.C (Salovey and Mayer, 1990). The way of avoiding to be ruled by emotions is seems to be ruling emotions rationally. On the other hand Stoic philosophers accepted emotions as dangerous and unpredictable and therefore not to be trusted for a long period of time as well (Meredith 2007). Emotional intelligence term refers to the capacity of recognizing individual’s own feelings and those of others, for sustaining self motivation, managing self emotions and relationships (Goleman, 1998). Goleman, Boyatzis, and McKee (2002) claimed that having a larger repertoire of emotional intelligence strengths can make a leader more effective since it means that the leader is flexible enough to handle the wide-ranging demands of running an organization. Emotional intelligence is a key aspect to leadership effectiveness and individual and organizational success at high performing organizations (Legier Jr., 2007). The influence of Daniel Goleman’s publishing Emotional Intelligence book in 1995 over number of articles may easily notices from the figure below.

Figure: The Number of Studies about E.I. Between 1990 - 2003



<http://www.dattnerconsulting.com/presentations/ei.pdf>

Recommendations for emotional intelligence training and emotional intelligence development may be ordered as fallows (Goleman 1998):

- Assess the job,
- Assess the individual,
- Deliver assessments with care,
- Gauge readiness,
- Motivate,
- Focus on clear, manageable goals,
- Prevent relapse,
- Give performance feedback,
- Encourage practice,
- Arrange support,
- Provide models,
- Encourage,
- Reinforce change,
- Evaluate.

The actual management of the physical plant requires leadership and managerial skills, but the majority of decisions that principals make are in dealing with people, and this requires emotional intelligence skills (Spaeth, 2007). For successful leadership, emotional intelligence can be learned (Goleman, 2002). Emotional intelligence has been accepted to be a valid predictor of important outcomes such as leadership, teamwork, job performance etc. But is emotional intelligence so trustworthy predictor argument still questionable (Whitman and others 2008).

Perception

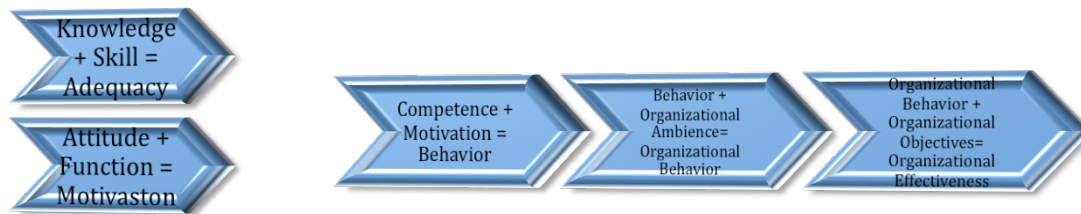
The transform of energy changes, namely stimulants in environment to nerve flux and transportation of these fluxes to brain called as sensation. Perception on the other hand is the meaning given to these sensations (Orhan 1998: 243). Perception is “the process of explaining the environmental objects and events by organizing the sense data (Şimşek et. al 2001: 85). The success of the manager depends on ability of urging subordinates realize organizational goals with their behaviors (Koçel, 1995). Every behavior of the employee has a reason, the motivation level of the employee is related with “How much organization fulfilling the needs of employee” (Ağırbaş et. Al 2005: 328).

Every behavior of an employee has a reason, the motivation level of an employee is related with the level of compensation of individual needs by organization (Ağırbaş et al. 2005: 328). It's known that the perception is not a objective concept that may differ for individuals since it has a definition like "the comments of data taken from inputs" (Şahin 2008: 27). It's also clear that emotional intelligence structures is one of the elements that creates individual differences. In modern world, everybody has clients that have perceptions to be traced (Goleman 2000: 169-203).

Motivation

Motivation is, entire operations that persuades, disposes and influence individual or people to act in a certain subject (Güney 2000: 17). The word incentive (motive), is meaning the reason of action and emotion are derived from the same origin "motore" (activate). The emotions are activating us to reach targets while incentives activate perceptions to shape our activities (Goleman 1998: 137). Motivation is manager's stimulation of employees. The modern manager have to create organizations that automatically has high levels of motivation in addition to maintaining individual motivation (Pamukoğlu 2004: 25-26). Motivation, cannot be observed directly, but through the interpretation of people's behavior it is perceived as indirectly. Each behavior is a symbol of an expression. This is why leaders have to comment the behaviors of employees and develop models that will maintain high levels of motivation (Yiğit 2002: 18). Leader have to create positive emotions (harmonize) that will uncover the best sides of people. Goleman named this as dominant leadership (Goleman 2008: 7). A study realized by Riordian, Gatewood ve Bill shows that the organizations which can manage employee perceptions about corporate reputation and the social activities of organization, will guarantee the job satisfaction and also high motivation (Özdemir 2007: 93-94). The motivation process starts with the needs that they always try to satisfy. The individual will act to reach a goal in order to obtain these needs. The manager that wants to maintain motivation needs to maintain satisfy of employees that will feel comfortable and happy by satisfaction of needs (Şahin 2004: 525).

The importance of motivation in Organizational Effectiveness



Adapted from Başaran 1991: 35

The factors effecting job satisfaction (Luthans 1995: 126):

- Job's itself,
- Wages,
- Promotion opportunities,
- Controls,
- Work team,
- Working conditions.

H1: There is a relation between emotional intelligence levels of lecturers and emotional intelligence perceptions of students.

Emotional intelligence organizes the emotional displays of leader that influences the target group. By using hierarchical linear modeling it's found out that the manager's displayed controllability of outcomes has a positive effect on the entrepreneurial motivation of employees. Confidence displayed by managers as an emotion has high importance regarding employees' willingness to act entrepreneurially (Brundin and others, 2008).

The results of sub hypothesis tests

Hypothesis (Emotional Intelligence Dimensions)	Results
H1a: Self Awareness	Confirm
H1b: Self Organizing	Deny

H1c: Individual Motivation	Deny
H1d: Social Awareness	Confirm
H1e: Social Skills	Confirm

H2: The perception of emotional intelligence of students effects their motivation as well.

Interaction between emotional intelligence and cognitive intelligence found out for organizational citizenship behavior directed at the organization (Cote & Miners, 2006). Magnus and colleagues found out a significant positive correlation between socially desirability and emotional intelligence by applying the Marlowe-Crowne scale with surveys (Magnus and others, 2006). Depending on a research based on meta-analysis of 48 studies about emotional intelligence between 1990 and 2008 years, a statistically significant relation was found between emotional intelligence and leadership effectiveness (Martin 2008).

The Relation of Emotional Intelligence Perception and Motivation Perception

Constant Value: Main Motivation Question						
		B	Standard Error	β	t	P
Constant		0,245	0,163	-	1,505	0,000
Independent Variables	Self Awareness	0,379	0,044	0,321	8,628	0,000
	Self Organizing	0,175	0,047	0,149	3,711	0,000
	Individual Motivation	0,132	0,043	0,114	3,062	0,000
	Social Awareness	0,186	0,045	0,169	4,134	0,000
	Social Skills	0,117	0,043	0,099	2,750	0,000
R= 0,614 R ² = 0,377 F= 106,931 P= 0,000 Durbin-Watson= 1,972						

The 38% of the variation in the dependent variables included in the model are described by the independent variables. Statements obtained in the other parameters of the model and associated t values are included in table. The table shows that each parameter is significant at %5 significance level.

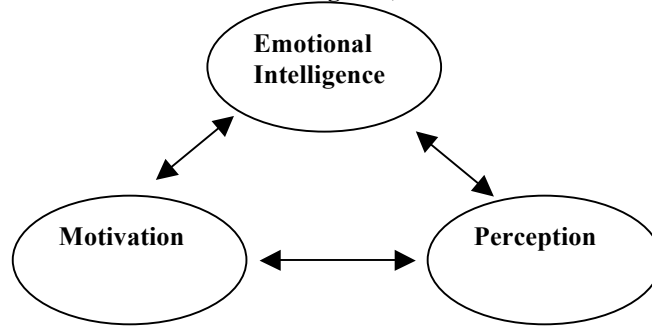
Constant value is 0,245. The effects of the 1 unit of independent values over constant (motivation is given at table. The effect of self awareness is 0,379 unit. The effect of self organizing is 0,175 unit. The effect of individual motivation is 0,132 unit. The effect of social awareness is 0,186 unit. The effect of social skills is 0,117 unit. According to this results the most influential variable is calculated as self awareness.

METHODS

Data were collected through surveys with lecturers and students of Canakkale Onsekiz Mart University in Turkey. The sampling frame consists of randomly selected 982 students and 62 lecturers of three faculties (Faculty of Engineering and Architecture, Agriculture, Economics and Administration). As a result, the effective sample size of the study is determined as 900 students and 30 lecturers.

The constructs in our study are developed by using measurement scales adopted from prior studies. All constructs are measured using five-point Likert scales with anchors strongly disagree (= 1) and strongly agree (= 5). Items for measuring Emotional Intelligence are adopted from Bar-on Emotional Score Inventory adapted to Turkish by Gursoy (2005) and Acar (2001). Items for measuring Emotional Intelligence Perception are adopted from Yılmaz (2007) and Gondelen (2007). Emotional Intelligence scale consists of 25 items measuring the five emotional intelligence dimensions with five questions for each dimension and 5 motivation questions. The Emotional Intelligence Perception consists of 25 items measuring the perceptions about five emotional intelligence dimensions with five questions for each dimension perceptions and 5 motivation questions.

The Model of the Research: Emotional Intelligence, Motivation And Perception Interaction



The Universe and Sample of the Research

The Distribution of Academicians

		Biga Eco. and Adm. Sciences Faculty	Engineering Faculty	Agriculture Faculty
Gender	Man	42	29	33
	Woman	12	8	15
Academic Title	Prof.	3	3	11
	Associate Prof.	13	5	14
	Assist. Prof.	38	23	22
	Other	-	6	1
Total		54	37	48

Source: Çanakkale Onsekiz Mart University related faculty web pages*

The Distribution of Students

		Biga Eco. and Adm. Sciences Faculty	Engineering Faculty	Agriculture Faculty
Cinsiyet	Bay	1561	566	457
	Bayan	1994	360	275
Toplam		3555	926	732

Source: Çanakkale Onsekiz Mart University student affairs

The number of the academicians and students are selected equally as sample. According to this the sample includes 18 academicians and 450 students for Biga Economic and Administrative Sciences Faculty and 18 academicians while 450 students for Engineering and Architecture Faculty and Agriculture Faculty.

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*http://biibf.comu.edu.tr/php/index.php?option=com_content&view=category&layout=blog&id=47&Itemid=420

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THE INFLUENCE OF KEY OCCUPATIONAL STRESS SOURCES ON EMPLOYEE TURNOVER INTENTION DURING GLOBAL ECONOMIC RECESSION

Meral Elçi
Gebze Institute of Technology, Turkey

İrge Şener
Çankaya University, Turkey

ABSTRACT

This study examines the effect of the three key sources of occupational stress (work overload, role ambiguity and career concerns) on employees' intention to leave their organizations. Work overload, role ambiguity and career concerns create a vital problem for both individuals and organizations. These stressors are much more significant during economic recession times, when compared to other factors. Since, employment rate decreases during such times, workload of the remaining employees are much higher. During these times, employees undertake more work which they are not responsible of, and this creates role ambiguity. Besides, recession times are a main challenge for the companies to survive; therefore employers do not concentrate on career development of their employees. A model based on these factors was developed and tested. Data were gathered from 190 participants working in 6 different organizations in İstanbul. The study provides empirical evidence for the effects of 3 dimensions of occupational stress on turnover intentions. The results indicate that, although work overload and career concern have a positive effect on turnover intention, there exists no significant effect of job ambiguity on employees' intention to leave. These findings suggest that, indeed during the economic recession when the opportunities for changing jobs is limited, employees still wish to leave their current jobs due to the work overload and their career concerns. The findings also demonstrate a difference according to gender and position of the participants.

Keywords: Occupational stress; work overload; role ambiguity; career concerns; turnover intention

INTRODUCTION

No occupation is exempt from stress. Since stress is associated with negative consequences both for the individuals and the organizations, it became an important issue to be considered by the organizations. One of the most important consequences of occupational stress for the organizations is the employee turnover. Employees' voluntary turnover is a major problem for many organizations. Voluntary turnover incurs significant direct and indirect costs and the loss of organization's social capital (Dess and Shaw, 2001). Voluntary turnover is much more important especially during economic recession. Such recession times characterize involuntary turnover of many employees, which result in increase of workload for the employees. Besides, due to the changing conditions, role ambiguity is also uncertain. During such times, it is also difficult to develop programs for career development, so that instead of career concerns employees care about not losing their jobs. Although the lack of availability of potential jobs is low, we suggest that the turnover intention of employees is still high due to the effect of these factors.

The relation of occupational stress sources and turnover intention of employees attracted the attention of many researchers. In most of these studies, the relation of work overload, role ambiguity and career concern with the turnover intention of employees was found out to be positive. With this study, it was intended to test these relations during the economic recession time. The study was conducted just after the effects of the recession begun to be felt, both by the organizations and the employees. Our intention was to emphasize the role of the increasing stress factors during economic recession.

LITERATURE REVIEW

Topper (2007) explains stress as a person's psychological and physiological response to the perception of demand and challenge. Tehrani (2002) argued that stress is caused by unsympathetic organizational culture, poor communication between managers and employees, lack of involvement in decision-making, bullying and harassment, continual or sudden change, insufficient resources, conflicting priorities, and lack of challenges.

Occupational stress is, on the other hand, defined as the perception of a discrepancy between environmental demands (stressors) and individual capacities to fulfill these demands (Ornelas and Kleiner, 2003; Topper, 2007). Occupational stress is associated with negative consequences both for the employees and also for organizations. It often shows high dissatisfaction among the employees' job mobility, burnout, high absentee rates, low employee morale, poor work performance and less effective interpersonal relations and internal conflicts at work (Grunfeld, 2000; Manshor, Rodrigue, and Chong, 2003; Christo and Pienaar, 2006).

Occupational stress can arise from different sources. These sources can be either exogenous (those are related to occupational conditions and occupation itself) or endogenous (related to individual characteristics) (Antoniou et al, 2006). In this study, we focus on some exogenous sources, which are work overload, role ambiguity and career concern. According to Cooper and Marshall's (1976) classification, 'work overload' is a factor which is intrinsic to the job; 'role ambiguity' is related to the role in the organization and 'career concern' is a factor of career development. Other factors related to relationships at work and organizational structure and climate according to this classification were not considered in this study.

Work overload, role ambiguity and career concerns create negative work-related attitudes and represent a vital problem for both individuals and organizations. Work overload refers to too much work or work that is beyond one's capability (Locke, 1983). On the other hand, Katz and Kahn (1978) define role ambiguity as "uncertainty about what the occupant of a particular office is supposed to do" (p. 206). Role ambiguity is determined in terms of either the predictability of the outcome or responses to one's behavior, or the existence or clarity of behavioral requirements, often in terms of inputs from the environment, which would serve to guide behavior and provide knowledge that the behavior is appropriate" (Rizzo, House & Lirtzman., 1970, p. 155-56). Career concerns model developed by Holmstrom (1999) suggest that, in order to influence the market's beliefs, managers will undertake more unobservable behavior during the early stages of their careers; while more senior managers are expected to undertake less effort in the later stages of their careers since their type has already been established in the labor market.

Turnover intention is defined as a conscious and deliberate willingness to leave the organization (Tett and Meyer, 1993). Ling & Phillips (2006) consider increased working hours to be a cause of work stress and turnover intentions. The experience of job related stress and the range of factors that lead to job related stress cause the employees to quit their organizations (Firth et al, 2004).

During economic recession times, work overload is high due to lack of enough number of employees within the organization. Role ambiguity is uncertain since the conditions are unpredictable. In addition, career concerns are low due to lack of employment opportunities in other organizations and shortage of career related expenses. During economic recession times, perception of individuals of the alternative jobs availability in the organization's environment is low. However, work overload, role ambiguity and career concern still have a positive effect on their turnover intention. Within this frame, the following hypotheses are developed:

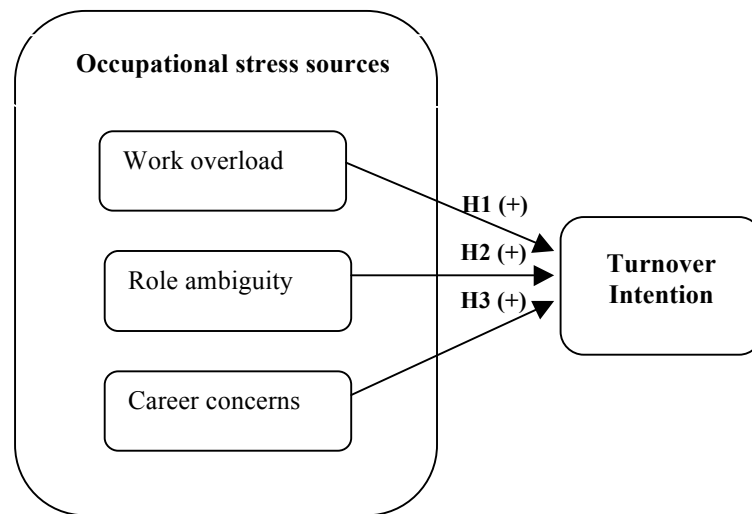
H₁: Work overload positively influences turnover intention.

H₂: Job ambiguity positively influences turnover intention.

H₃: Career concern positively influences turnover intention.

Research model is demonstrated in Figure 1. As indicated the research model is designed to exhibit the effects of work overload, role ambiguity, career concerns on turnover intention.

Figure 1: The Theoretical Model



METHODOLOGY

A questionnaire that comprised three sections was developed, which is the source of data for the study. The first part of this questionnaire included demographic questions and work related questions, such as gender, marital status, age, tenure, position and the department at which the participant is working. The second part of the questionnaire consisted of questions related to work overload, role ambiguity and career concerns. These questions were adopted from Lim and Teo (1999). While turnover intention does not measure actual turnover, research suggests that an individual's intentions to quit or stay tends to be a good predictor of turnover behavior (Mobley et al., 1978). Therefore, in order to measure the turnover intention of the participants, Mobley et al's (1979) turnover intention scale was utilized, as the final part of the questionnaire. The scale ranged from 1 (*strongly disagree*) to 5 (*strongly agree*), indicating that a higher score implies a higher turnover intention.

The sample for this study consists of 190 employees working in either domestic or foreign companies operating in manufacturing industry, producing plastics, metal and electricity equipments. The survey, which lasted for 3 months, was carried out in 6 organizations, in İstanbul and Kocaeli. Since, the population that is employed in industry is high when compared to other cities; these two cities are selected for the study. Of the 300 questionnaires sent out, 190 useable responses were obtained, representing a 63% return rate. Table 1 summarizes the demographic profile of the sample.

Male employees comprised approximately 68% ($n=129$), whereas female employees represent 31.1% ($n=59$) of the sample. Of the 190 respondents, 59% were married ($n=112$), 39% ($n=74$) were single. The age range was between 20 to 51 years. Of this, the largest proportion of the participants (41%) was less than 30 years old.

Table 1. Sample profile of the respondents

Demographic Variables	Categories	Frequency	Percentage
Gender	Male	129	67,9
	Female	59	31,1
Age	Less than 30	78	41,1
	30-35	44	23,2
	36-40	33	17,4
	41-50	20	10,5
	More than 51	11	5,8
Marital Status	Married	112	58,9
	Single	74	38,9
Working experience	1-5	104	54,7
	6-10	36	18,9

	11-15	27	14,2
	More than 16	21	11,1
Department	Locked / purchase	40	21,1
	Accounting / finance / financial jobs	27	14,2
	Sales and marketing	30	15,8
	R&D/Quality control	46	24,2
	General management/HRM	32	16,8
	Computing	1	,5
Education	Primary school	7	3,7
	High school	40	21,1
	University	102	53,7
	Master's / PhD	38	20,0
Position	Workers	27	14,2
	Office employees	60	31,6
	Journeyman-master	4	2,1
	Engineers	33	17,4
	Director, conductor	54	28,4
	Senior managers	4	2,1

FINDINGS

The result of the factor analysis of research variables is provided in Table 2. a strong factor structure is supplied through the factor analyses performed upon variables concerned with work overload, role ambiguity, career concerns and turnover intention. This indicates that the questionnaire statements used to measure these concepts were loaded to the variables. The total variance explained by this analysis is 65,047.

As it can be inferred from Table 3, the instruments used in this study were reliable, with coefficients ranging from 0,86 to 0,91, that exceeded the minimum acceptance level of 0,70 (Nunnally, 1978). The mean score and standard deviations for each variable are listed in the same table. Correlation Analysis indicates a significant relationship between the variables. There is a high positive relation of turnover intention, respectively with, career concerns ($r=,384^{**}$), work overload ($r=,370$) and role ambiguity ($r=,359^{**}$).

Correlation analysis with demographic variables indicate that, there exists a positive relation of turnover intention with marital status ($r=,231^{**}$), whereas a negative relation exists between turnover intention and age of participants ($r= -,199^{**}$). According to these results, the turnover intentions of married people are low when compared to single people. In addition, turnover intention of employees decreases with age.

Table 2: Results of Factor Analysis

Instrument items	Components			
	Work overload	Role ambiguity	Turnover intention	Career concerns
Work overload – Having far too much work to do	,785			
Time pressures/deadlines	,733			
Fear of not being able to complete projects on time	,670			
Working on unnecessary tasks/projects	,655			
Staff shortage	,631			
Dealing with difficult people at work	,570			
Keeping up with new technology, techniques and ideas	,563			
Having to perform tasks not in my job description	,561			
Staff Turnover Rates	,504			
The ways conflicts are resolved in my organization		,824		
Lack of clarity about objectives and priorities in my work		,799		
Conflicting job and task demands		,770		

Frequent changes in objectives and priorities.				,725		
Lack of clarity about my role and responsibilities				,713		
As soon as it is possible, I will leave the organization					,896	
I am actively searching for an alternative to the organization					,894	
I think a lot about leaving the organization					,834	
Danger of my skills becoming obsolete						,850
Danger of being trapped in my present job						,821
Danger of my skills becoming redundant						,786

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 5 iterations.

Table 3: Descriptive Statistics, Correlations and Alpha Reliabilities of the Measures

Variable		M	SD	1	2	3	4	5	6	7	8
Work overload	1	2,8475	,85782	α =0.8618							
Role ambiguity	2	2,9016	,95299	,594(**)	α =0.8878						
Career concerns	3	2,4860	1,09059	,425(**)	,423(**)	α =0.8719					
Turnover intention	4	2,1316	1,08904	,370(**)	,359(**)	,384(**)	α =0.9078				
Department	5	3,0341	1,45366	-,006	-,010	,047	-,043				
Age	6	2,1505	1,24289	-,129	-,088	-,065	-,199(**)	-,021			
Marital status	7	1,3978	,49078	,073	,060	,086	,231(**)	-,001	-,503(**)		
Number of children	8	,7391	,91579	-,215(**)	-,102	-,132	-,139	-,080	,596(**)	-,644(**)	
Distance	9	3,1223	,97615	-,110	-,059	-,185(*)	-,137	-,004	-,011	-,015	,044

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

** Correlation is significant at the 0.01 level (2-tailed).

Since, the major purpose of this study is to examine the influence of different occupational stress sources on turnover intention, regression analysis was conducted. As demonstrated in Table 4, when all of the three independent variables (Model 1) were included into the regression equation, the coefficient of determination (R^2) was found out to be 0,214 indicating that 21% of job stress is explained by the three variables. Regression analysis indicated that work overload had a significant positive impact on turnover intention. Thus, H_1 , proposing that perceptions of work overload positively influences turnover intention, was supported. Among the dimensions of the occupational stress career concern had a significant positive impact on turnover intention. Hence the hypothesis H_3 was also supported. Finally, job ambiguity had not a significant positive impact on turnover intention. Therefore H_2 was not supported.

Table 4: Regression Analysis of Occupational Stress Sources on Turnover Intention

The Dependent Variable: Turnover intention			
Model 1's Independent variables	Standardized Coefficients	t	Sig.
Work overload	,176	2,115	,036
Role ambiguity	,151	1,811	,072
Career concerns	,246	3,331	,001
$R^2 = 0,214$; $F = 16,861$; $p\text{-value} = 0,000$			

Considering, stressors as independent variables, turnover intention dependent variable and gender as control variable; it was noticed that the independent variable that has an effect on males' turnover intention is their career concerns ($\beta_{\text{career concerns}} = ,402^{**}$; $F = 15,037^{**}$), and the independent variable that has an effect on females' turnover intention is work load ($\beta_{\text{work overload}} = ,361^*$; $F = 4,322^{**}$).

On the other hand, considering stressors as independent variables, turnover intention dependent variable and position of employees as control variable; it was found out that, work load ($\beta_{\text{work overload}} = ,358^{**}$; $F=15,232^{**}$) and role ambiguity ($\beta_{\text{role ambiguity}} = ,297^{**}$) have an effect on lower level employees' (workers, office employees, journeyman-master) turnover intention. Career concerns ($\beta_{\text{career concerns}} = ,361^{*}$; $F=7,102^{**}$) have an effect on higher level employees' (engineers, director, conductor, senior managers) turnover intention.

Table 5: Regression Analysis of Occupational Stress Sources and selected demographics on Turnover Intention

The Dependent Variable: Turnover intention			
Model 2's Independent variables	Standardized Coefficients	t	Sig.
Work overload	,069	,792	,430
Role ambiguity	,109	1,302	,195
Career concerns	,354	4,582	,000
Department	-,070	-1,051	,295
Age	-,136	-1,609	,110
Marital Status	,225	2,543	,012
Number of children	,120	1,239	,217
Distance	-,097	-1,433	,154

$R^2 = 0,271$; $F = 8,671$; $p\text{-value} = 0,000$

As it can be inferred from Table 5, when some of the demographical variables are included in the regression analysis, the results indicated that career concerns ($\beta_{\text{career concerns}} = ,354^{**}$) and marital status ($\beta_{\text{marital status}} = ,225^{*}$) had an effect on turnover intentions. This model suggests that marital status among other demographical variables and career concerns among other stressors are important variables for turnover intention of employees.

DISCUSSION

This study tested the effect of three dimensions of occupational stress (work overload, role ambiguity and career concerns) on turnover intentions of employees. Work overload and career concerns were found out to have an effect on turnover intention. From the managerial point of view, in order to reduce stress level and the rate of turnover among employees, organizations should follow a strategy which will reduce the symptoms of the causes of stress. Job Analysis may be a key technique for managing job overload. A study by Gutteridge, Leibowitz and Shore (1993), found that individual career needs should use employees' strong ways, should target development needs, should provide an attractive work environment, should match the career with employees' interests, values and personnel style. Management styles that satisfy the employees' such needs will decrease their anxieties about their careers and eliminate turnover intention idea. Schneier, MacCoy and Burchman (1988) argued that managers who coach, counsel, mentor, and train their employees can enhance their skills and motivation. By seeking out opportunities to develop new competencies in different areas, employees may make themselves more valuable to their present firm and at the same time make themselves more valuable in the external labor market should they decide to leave.

This study carries some limitations. Other stressors (such as, work demands, relationship with others, role conflict, alienation, unfavorable work environment) could be included in further studies, undertaken during the recession time. Without the use of longitudinal studies, the relationships between stress and turnover intentions could not be understood. For future research, a longitudinal research should be preferred. The data which will be collected after the recession, will lead to comparative findings. It is also possible to extend the theoretical model by including additional (1) dependent variables such as organizational commitment, job performance, burnout, absenteeism and (2) control, moderating or mediating variables such as: personality, locus of control or organizational trust and justice perceptions. In addition, the sample could be extended by including organizations that have activities other than manufacturing industry, such as service and trade.

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EXPLORING COMPANIES' BEHAVIORAL PARADOX BY USING "THE CORPORATION" DOCUMENTARY

Selim YAZICI
Ayşegül ÖZBEBEK
Esra KILIÇARSLAN TOPLU

Istanbul University, Turkey

ABSTRACT

Films are widely used in business education to illuminate management concepts. Since films can provide the real view of the theories and concepts worked in issues, they have more lasting impression. Ethical matters are more complex and involve many different and interlinked processes and influences. This makes the subject difficult for students lacking business experience or frame of reference to enable them to understand potential conflicts of interest that occur in business practices. In this study, "The Corporation", a documentary film by March Achbar, Jennifer Abbott and Joel Bakan, which has received awards in film festivals around the world, has been used for analysis to illustrate the behavioral paradox of corporations. Film analysis has been used as an educational tool for teaching organizational behavior and management concepts since 1970s. Through showing "The Corporation", a quantitative analysis has been conducted by comparing the essays written by students.

Keywords: *Business Ethics, corporate social responsibility, decision-making, business ethics education, film analysis*

INTRODUCTION

Film is a powerful tool for teaching students conceptual flexibility and the ability to shift perspectives (Champoux, 1999) and can be used as a case study, for problem solving, to give substance to abstract concepts, to provide vicarious experience and to illustrate historical events. It is also a powerful tool for illustrating concepts and demonstrating the application of theory, providing students with meaningful opportunities to observe and understand stakeholder interactions (Buchanan&Huczynski, 2004; Champoux, 1999).

The documentary, "The Corporation" can be used as a valuable teaching tool to provide students with a context and imagery that allows them to experience the fundamental conflicts that occur as a result of corporate actions. Students need to be aware that their decisions will encounter some ethical or environmental problems. Real illustrations of ethical dilemmas faced by corporations everyday, discussed by business people involved in the problems, is a very effective method for students to face some of these issues and make their own judgments.

In this study, "The Corporation", a documentary film by March Achbar, Jennifer Abbott and Joel Bakan, which has received awards in film festivals around the world, has been used to illustrate the behavioral paradox of corporations (Bakan, 2005) as a result of ethical dilemmas, that occur in everyday business. The film starts with the premise that corporations have been given the rights of a legal person, so one must evaluate what kind of person is the corporation. As one of the indispensable actors of society, positions and responsibilities of corporations in society are examined with a critical perspective in the film.

Since ethical problems are complex, interrelated, and often have more than one correct answer, the use of films like "The Corporation" documentary, help students to understand the ethical issues the business people face during their everyday work.

THEORETICAL BACKGROUND

The use of films as an educational resource to illustrate management concepts like ethical decision-making, risk taking, leadership, communication, have been discussed by many researchers for many years (Scherer&Baker, 1999; Tyler, et.al., 2009; Smith, 2009). Since the 1970s, educators experienced in using film as a teaching tool have urged its adoption by others. Wegner (Wegner, 1977) was the first researcher in using this medium. In his 1977 booklet, he described various film types and how to use them in classroom. Many others have reported successfully using films in teaching a broad range of disciplines or topics. (Foreman&Thatchenkery, 1996; Scherer&Baker, 1999; Champoux, 1999; Comer, 2001; Champoux, 2004; Buchanan&Huczynski, 2004; Clawson, 2006; Frieden&Deborah, 2007).

Films have a particular value when teaching inexperienced students whose knowledge is limited about business practices and workplace. Champoux (1999) advocated the use of film scenes because they offer a visual portrayal of abstract theories and concepts taught in organizational behavior and management courses. Feature films can also be used to demonstrate the dynamic complexity and untidiness in organizational settings (Smith, 2009). This use of films can be a valuable complement to traditional textbook accounts that, of necessity, tend to fragment and simplify for presentational purposes (Dunphy, Meyer, Linton, 2008). Films also provide a familiar attention-capturing visual medium to engage the student and encourage retention (Scherer&Baker, 1999). They also provide platforms for analyzing the integration of topics normally taught discretely or separately (Buchanan&Huczynski, 2004).

Films that have been used in management courses include *Enron* to illustrate the business ethics (Cox, 2009); *Rising Sun* to learn cross cultural communication and to understand transplant organizations (Foreman&Thatchenkery, 1996); *12 Angry Men* to see biases, conflict and power issues, *Thirteen Days* to illustrate complex and politicized decision processes (Buchanan&Huczynski, 2004); and *Dead Poets Society* to stimulate class discussion on issues such as ethics, values, and organizational pressures toward conformity, and on role conflict and autonomy (Berger&Pratt, 1998).

Students also learn how to see the application of the concepts in various contextual settings with films. It is noted that using films as an effective pedagogical tool heightened student interest without sacrificing academic rigor, allowed classes to observe and evaluate processes in action, exposed students to a world beyond their own, and offered opportunities for discussion, values clarification and personal assessment (Berger&Pratt, 1998).

Previous research suggests a framework for analyzing the movies or for “connecting things up” either to the relevant concepts of management or to the topic under discussion in the textbook (Dunphy, 2009). The use of the documentary film “The Corporation” in the classroom has also been discussed. Hatfield (2008) has argued the using of “The Corporation” as a powerful illustration of ethical issues facing the financial manager in classroom settings. She argues that the documentaries can be used as a platform for lively discussions with regard to issues that could potentially occur, but her hypotheses were left untested.

STUDY DESIGN AND METHODOLOGY

One of the most challenging problems facing academicians are developing techniques for teaching business ethics that truly engage the student. Goals of business ethics education have included the teaching of ethical theory and the particular contexts unique to making ethical decisions in the workplace. The objective of some courses is to have an effect on student awareness of ethical issues and attitudes towards ethics, while other courses focus on reasoning ability, with the third type of course seeking to integrate the two objectives of awareness and reasoning (Cox, 2009).

Business Ethics courses include abstract concepts and are abstruse for students. Students need to be aware of the potential conflicts that they will face. Students need to develop skills and awareness that will allow them to personally asses the harm and benefit of business decisions, not just for the shareholder but for all stakeholders of the company (Hatfield, 2008). At this point the documentary, “The Corporation” can be used as a valuable teaching tool to provide students with a context and imagery that allows them to, in a virtual sense, experience the issues, thereby making the material more relevant and creating a more pronounced impression on the student.

In this study the documentary film “The Corporation” is used as a teaching aid but not as a primary medium in an elective “Business Ethics and Corporate Social Responsibility” course. “The Corporation” is a documentary film based on interviews with corporate insiders, carefully composed resulting in a documentary that provides a

challenging view of corporations' responsibilities to society in general. There are no actors in the film that ensures that any character dramatizations are minimal.

The main question considered in "The Corporation" is "if corporations are considered to be a person, what kind of person are they?" The answer came early in the film: a psychopath. By using many different ideas from experts, business thinkers to corporate people, the film concludes that the corporation is today's dominant power, it is a greedy, amoral entity based on acquiring as much profit as possible and not caring about ethical, social and environmental responsibilities.

In this study, we hypothesize that viewing of the documentary "The Corporation" as a supplemental teaching material will attract students and create more awareness than traditional lecturing methods. This will in turn result in a change in understanding of ethical problems created by the corporations in the society. Thus our hypothesis is that using of the documentary "The Corporation" in a Business Ethics and Corporate Social Responsibility course will create a relatively higher level of understanding on students watching the film, than that of the other group, for ethical dilemmas caused by behavioral paradox of corporations.

H₀: The viewing of "The Corporation" documentary will not create a significant difference between two groups on their understanding levels.

H₁: The viewing of "The Corporation" documentary will create a significant difference between two groups on their understanding levels.

Method

Forty business administration undergraduate students from a public university in Istanbul, who are attended of an seventh semester undergraduate level course entitled "Business Ethics and Corporate Social Responsibility", participated in the study. The average age was 21,3.

Students were attended to the class given by the professor for 12 weeks. The students were randomly divided into two groups at the end of the 12th week. The control group was consisting of 20 students and experimental group was 20 students. The control group received no extra material about the course, while experimental group viewed "The Corporation" documentary. Then, both groups were asked to write an essay (at least 300 words) considering the role and responsibilities of the corporations in the society at a 40 minute session in the classroom. Each essay was graded blindly by a teaching assistant over 100.

Upon grading the essays, the grades were analyzed statistically by using SPSS 17.0. Compared to the control group, students in the experimental group reported results that were highly significantly different ($p \leq .01$ or lower). The results of independent samples t-tests were outlined in table 1 through table 4.

Table 1: Group Statistics

Group	N	Mean	Std. Deviation	Std. Error Mean
Control Group	20	43,3333	33,36665	7,28120
Experimental Group	20	76,3158	17,06541	3,91507

To test the null hypothesis, t-test for independent samples was used. Before implementing the test, the normality assumption is checked. Two non-parametric tests (Mann-Whitney U test and Kolmogorov-Smirnov test) were also used to test the same null hypothesis.

Table 2: Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means	
			95% Confidence Interval of the Difference

	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	11,156	,002	-3,872	38	,000	-32,98246	8,51898	-50,22822	-15,73669
Equal variances not assumed			-3,990	30,412	,000	-32,98246	8,26702	-49,85639	-16,10853

Table 3: Test Statistics^b

Mann-Whitney U	84,000
Wilcoxon W	315,000
Z	-3,153
Asymp. Sig. (2-tailed)	,002
Exact Sig. [2*(1-tailed Sig.)]	,001^a

a. Not corrected for ties.

b. Grouping Variable: Group

Table 4: Test Statistics^a

Most Extreme Differences	Absolute	,514
	Positive	,514
	Negative	,000
Kolmogorov-Smirnov Z		1,623
Asymp. Sig. (2-tailed)		,010

a. Grouping Variable: Group

Both the parametric test (see Table 2) and the two non-parametric tests (see Table 3 and Table 4) show that there is highly significant evidence against the null hypothesis; that is, there is no difference between the means of the grades of the two groups. Therefore, we assume that the viewing of "The Corporation" documentary will create a significant awareness to the students' understanding of ethical and social issues.

RESULTS

Our analysis prove that using the documentary "The Corporation" as a supplementary tool in a Business Ethics and Corporate Social Responsibility course raise the awareness of students about the role that corporations play in ethical, social, and environmental issues.

Study Limitations

Before making a conclusion, it is important to consider the following limitations of this study:

- The film was in English with Turkish subtitles. Since the students' English was intermediate-level, this might result some lack in understanding. Also, following both the subtitles and watching the scenes might take more effort for students.
- This documentary is copyrighted material. Therefore supplying a legal copy of the film might also bring some extra costs to be considered.
- No structured questionnaire were used to collect data, instead data were collected from the grades students have collected from their written essays.
- The cultural dimension might also be considered as a limit because of the content of the film was based on mainly economical issues of USA, including corporations, regulations, ethical beliefs, and social structure.

DISCUSSION AND CONCLUSIONS

This study was designed to explore whether using "The Corporation" documentary in classroom settings will raise the awareness of the role that corporations play in ethical, social, and environmental issues legitimate

factors for consideration in business decisions, and understand the paradoxical behaviors of corporations for future business managers. At this point, the main objective was to make an evaluation about how the students assess this paradox including conflicts and dilemmas between what is right and how it is perceived in the business world.

In conclusion, the results of this study suggest that using "The Corporation" documentary in classroom can have a significant impact on students' understanding of ethical and social problems created by the corporations in the society.

Future Research

For the future research about using films in business education it might be convenient to consider the following statements:

- Since the population (the number of students enrolled in this course) was relatively small, using larger samples might enable researchers to make a content analysis, which could bring the benefits of qualitative research.
- In this study, "The Corporation" was used as secondary material to supplement learning. It might be useful to test whether this documentary will create more benefit as a primary medium.
- The documentary is a relatively long one. It can be divided into segments, and can be shown and discussed separately supporting the course material for each week, thus comparing the reinforcement affect on the learning outcome.

Although there were many studies highlighting using films in different classes, only a few made statistical analysis to support their ideas. "The Corporation" presents the negative aspects of business without regarding the positive effects and provide some anecdotes about the behavioral paradox of corporations. Thus, it is emphasized that the students (as future business managers) need to understand and assess of impact their business decisions have on other stakeholders of the corporation by using this documentary in this study.

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THE EFFECTS OF AFFECTIVE COMMITMENT AND ORGANIZATIONAL CITIZENSHIP BEHAVIORS ON CREATIVE BEHAVIOR: AN EMPIRICAL INVESTIGATION IN TURKISH CHEMISTRY INDUSTRY

Hülya Gündüz Çekmecelioğlu

Kocaeli University, Turkey

İrge Şener

Çankaya University, Turkey

Meral Elçi

Gebze Institute of Technology, Turkey

ABSTRACT

The aim of this study is to empirically investigate the impact of affective commitment and organizational citizenship behaviors on individual creative behavior. This study considers organizational citizenship behaviors as a multidimensional construct and compares the effects of four components of organizational citizenship behaviors (altruism, courtesy, conscientiousness, civic virtue) and affective commitment on creative behavior. Furthermore, in this research relationship between affective commitment and citizenship behaviors has been examined. Data obtained from 247 chemistry industry employees in Kocaeli-Turkey were used to examine the hypothesized variables. The results of this research indicate that affective commitment and several dimensions of the organizational citizenship behaviors have significant positive effects on employees' creative behavior. The findings also demonstrate that affective commitment is an important antecedent of citizenship behaviors.

Keywords: *creativity, creative behavior, affective commitment, organizational citizenship behaviors*

INTRODUCTION

With increasing global competition and shortened product life cycles, creativity became an important source of competitive strength for organizations. Organizational scholars and the business community have become increasingly concerned with enhancing individual creativity, since it is the foundation of organizational creativity and innovation. Since the development of the concept, much research has been focused to explore the antecedents of creativity and creative behavior (Abbey and Dickson, 1983; Amabile et al, 1996; Cummings and Oldham, 1997; Shalley, Gilson, Blum, 2000; Gündüz Çekmecelioğlu, 2005, 2006; Gündüz Çekmecelioğlu and Eren, 2007).

Organizational citizenship behaviors (OCB) are discretionary helping actions that promote organizational effectiveness. Many studies have noted social functionality and contribution of helping behaviors, volunteering and altruism towards individuals, groups or institutes. In recent decades these topics had also received considerable attention in management studies and added new insight into our understanding of organizations, and the workplace in the modern societies. Hence, beyond its general social relevancy, this altruistic and helping behaviors has proven to have interdisciplinary meanings (Gadot, 2006: 77). It has been argued, however, that OCBs benefit organizations in ways besides contributing directly to group or organizational performance, most notably, by making organizations more attractive places to work for one's coworkers (Podsakoff and Mac Kenzie, 1995; Tepper, et al., 2004). This perspective which has not been tested, suggests that coworkers' OCBs have a positive influence on fellow employees' attitudes and behavior (Tepper, et al., 2004, 455). Thus, the purpose of this research is to examine and compare the effects of four components of organizational citizenship behaviors and affective commitment on creative behavior.

LITERATURE REVIEW

Creative Behavior and Creativity

Earlier creativity theory and research focused almost exclusively on a personality approach and, personal characteristics of individual. However, recent developments have witnessed an emergence of systems theories of

creativity, which generally emphasize the interaction between the individual and the environment and maintain that multiple components must converge for creativity to occur (Amabile, 1988; Woodman, Sawyer, Griffin, 1993; Shalley, et al, 2000; Sternberg and Lubart, 1999; Wang and Netemeyer, 2002). Researchers are in general agreement that personal characteristics including self-confidence, locus of control, high energy, task motivation, autonomy, toleration of ambiguity, intuition, critical thinking, curiosity relate positively and consistently to measures of creative behavior. For example, Amabile (1997) suggested three major components in particular as important for creative behavior in organization: expertise, creative thinking or skills, and intrinsic task motivation. Expertise refers to knowledge, proficiency, and abilities of employees to make creative contributions to their fields. Creative-thinking skills include cognitive styles (e.g., divergent thinking, ideational fluency) as well as personality variables that influence the application of these creative thinking skills. Task motivation (intrinsic motivation) refers to the desire to work on something because it is interesting, involving, exciting, satisfying, or personally challenging. Task motivation is crucial in turning creative potential into actual creative ideas. Studies confirm that the higher the level of each of these three components, the higher the creativity is (Amabile, 1997; p.42).

Research has found that R&D professionals believe that intrinsic motivation is critical for creativity and creative performance has been found to be positively correlated with intrinsic motivation to engage in a task (Amabile and Gryskiewicz, 1987). Intrinsic motivation is inner directed interest in a task. In order to be creative, individuals have to be both interested in the issue or problem to be addressed and motivated to find a solution. Since creativity requires a great deal of mental activity, individuals need to be motivated to work hard to achieve breakthroughs. According to cognitive evolution theory (Deci and Ryan, 1980) the presence of salient extrinsic constraints on performance, shifts an individual's perceived locus of causality from internal to external, so task engagement is perceived primarily as a means of achieving an extrinsic end. This means-end relation between the task and constraint undermines intrinsic motivation. But when individuals are free to focus on task activities, they are more likely to be creative (Shalley, 1995,484).

Creative behavior is defined as behavior that results in identifying original and better ways to accomplish some purpose (Amabile, 1983; Abbey and Dickson, 1983). Shalley (1995: 483) defined individual creative behavior as developing solutions to job-related problems that are judged as both novel and appropriate for the situation. Similarly, in Nickerson's view (1999), creativity is best described as the human capacity regularly to solve problem or to fashion products in domain, in a way that is initially novel but ultimately acceptable in a culture. Creativity is also defined as useful novelty for its own sake, but novelty that can be applied and add value to an organization's products and services (Oldham and Cummings, 1996: 608). Similarly, Wang and Netemeyer (2002) in their qualitative study conceptualize salesperson creative performance as the amount of new ideas generated or behaviors exhibited by the salesperson in performing his/her job activities. However, this creativity does not happen automatically. Firms and their managers must ensure that their employees will make creative contributions. They must first hire people with potential for creativity, and then they must structure their employees' environment in order to bring out this creative potential. Only by fostering the right people in the right place, creativity in organizations can be maximized (Cummings, Oldham, 1997: 22). It's clear that the social environment is an important means of improving creativity. Especially modern social psychology and creativity theory pointed the role of social environment on creative behavior. For example, Amabile (1983, 1996) focused on the role of social environmental characteristics as well as personal characteristics on creativity, and assumed that the social environment can influence both the level and frequency of creative behavior. Amabile et al (1996) have described the development and validation of a new instrument, KEYS: Assessing the Climate for Creativity, designed to assess perceived stimulants and obstacles to creativity in organizational work environments. According to this scale stimulant scales can be described as; organizational encouragement, supervisory encouragement, work group supports, freedom, sufficient resources and challenging work. On the other hand, obstacle scales can be described as workload pressure and organizational impediments. Like Amabile, some other researchers (Woodman, Sawyer, Griffin, 1993; Cummings, Oldham, 1997; Scote and Bruce, 1994) pointed out that work environment characteristics can influence individuals' creative behavior.

The majority of research regarding creativity has found that organizational encouragement, supervisory support, autonomy and freedom, challenging job (Amabile et al., 1996) non-controlling and supportive supervisors (Cummings and Oldham, 1997), goal setting, rewards, and choice or personal discretion in work procedures can affect creativity. Furthermore others have noted that innovative organizations are characterized by an orientation toward creativity and innovative change, support for their members in functioning independently in the pursuit of new ideas (Kanter, 1983; Siegel and Kaemmerer, 1978), and a tolerance for diversity among their members (Siegel and Kaemmerer, 1978). Adequate supplies of such resources as equipment, facilities, and time are critical for innovation (Amabile, 1988; Angle, 1989) and the supply of such resources is another manifestation of the organizational support for innovation (Scott and Bruce, 1994).

In sum, creativity literature focused on the effects of personal characteristics of individual and work environment on creative behavior. However, the contemporary social psychological research on creativity has not explicitly examined the relationship between affective commitment, citizenship behaviors and creative behavior. Hence, the aim of this study is to contribute to the field in this domain by examining the relationship between affective commitment, organizational citizenship behaviors and creative behavior of employees.

Organizational Citizenship Behaviors and Organizational Commitment

The widespread interest in organizational citizenship stems primarily from the belief that these behaviors enhance organizational effectiveness (Podsakoff and MacKenzie, 1997, 134). Because of this, most of research has focused on the antecedents of employees' OCBs and suggests that individuals who hold more favorable attitudes perform OCBs with greater frequency (Organ, 1988; Tepper et al., 2004). But a few research has explored the relation between OCB and employee or organizational effectiveness (Podsakoff and Mac Kenzie, 1997, p.134) or creativity (Gündüz Çekmecelioğlu, 2006).

According to Organ's definition (1988: p.4), "*OCB represents individual behavior that is discretionary behavior not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the effective functioning of the organization*". In other words, a "sense of citizenship" translates into a willingness to go "above and beyond" literal contractual obligations. Some examples of OCBs are assisting coworkers, going out of one's way to protect organizational property, not taking work time to attend to personal matters, and making innovative suggestions that help the overall productivity of the work group (Organ, 1988). Although, there is no clear consensus in the literature on the number of dimensions of OCBs, five dimensions of OCB identified by Organ (1988) were later operationalized by Podsakoff, MacKenzie, Moorman and Fetter (1990), including altruism (discretionary behaviors that aid a specific other person or group in task related matters) courtesy (constructive gestures that help prevent problems for coworkers), sportsmanship (tolerating in good spirit the occasional hardships and deprivations that unpredictably befall individuals in the course of organizational endeavors), civic virtue (constructive involvement in the political life of the organization), and conscientiousness (discretionary behavior on the part of an employee that goes well beyond the minimum role requirements of the organization, in the areas of attendance, obeying rules and regulations). The practical importance of OCBs is that they improve organizational efficiency and effectiveness.

Most contributions to the literature characterize OCB as contributing to organizational effectiveness (Organ, 1988). Empirical research generally supports this notion. OCBs benefit organizations in ways besides contributing directly to group or organizational performance, most notably, by making organizations more attractive places to work for one's coworkers (Podsakoff and Mac Kenzie, 1997) and by contributing to resource transformations, innovativeness and adaptability (Organ, 1988). OCBs in the form of setting aside one's own work responsibilities to come to the aid of others give employees the sense that the organization is the kind of place where individuals treat each other with kindness and consideration, and they implicitly communicate that fellow employees' feelings are valued. These experiences, in turn make organizations more attractive places to work and foster loyalty and commitment to the organization. OCBs have also been posited to clarify and fostering a sense of stability (Podsakoff and Mackenzie, 1997; Tepper et al., 2004). Helping fellow employees perform their responsibilities improves the understanding that they have of their role requirements, which in turn, increases their satisfaction and commitment (Mathieu and Zajac, 1990; Tepper et al., 2004). Organizational citizenship behaviors may create collective atmosphere and supportive work climate. Thus, following this we also expect that OCBs will be positively related to employee creative behavior, and suggest the following hypotheses.

H1: Employees' OCBs will be positively related to creative behavior.

On the other hand, organizational commitment is defined in the present context in terms of the strength of an individual's identification with and involvement in a particular organization. Such commitment can generally be characterized by at least three factors: a strong belief in and acceptance of the organization's goals and values; b) a willingness to exert considerable effort on behalf of the organization; c) a definite desire to maintain organizational membership (Porter, et al, 1974: 604). Today, it is well recognized that employees' commitment to the organization can take different forms. Allen and Meyer (1990), for example, identified three common themes among the uni-dimensional conceptualizations of commitment (Meyer, Allen, and Topolnytsky, 1998: 82). The first dimension or form of three components model of organizational commitment is affective commitment (AC), which represents the idea that one's commitment to the organization is driven simply by an emotional attachment to the organization and identification with the organization. In simpler terms, it is a mind-set characterized by a personal desire to follow a course of action, which in this case is staying with the organization. The second form is normative commitment (NC) or a feeling of perceived or moral obligation to stay with a particular course of actions (i.e., stay with one's organization). The third form is continuance commitment (CC) or an attachment based on the perceived costs of not continuing with a course of action (i.e.,

what would be given up if one left the organization) (Bentein, et al., 2005:469). One major approach to the study of organizational commitment is to view it in terms of an affective attachment. Furthermore, researchers found that strong relationship between affective commitment and positive work outcomes. Because of this, in this study the only dimension that is used from the Allen and Meyer (1990) study was affective commitment.

Organizational commitment develops naturally and contributes positively to the organization, and may be considered a value added factor in work environments. It connotes such attributes as attachment, allegiance, dedication, devotion, engagement and responsibility (Marchiori and Henkin, 2004). According to Randall (1989), committed employees internalize company goals and accept efforts to increase production and their own performance (Tuomi, et. al, 2004). Moreover, affective commitment also benefits the employees. These benefits are derived not only from the commitment itself, but also from the enhanced work environment that leads to commitment (Meyer and Allen, 1988). For example, employees benefit from challenging jobs that improve their work skills (Gault et al., 2000) and creative behavior (Amabile et al., 1996; Gündüz Çekmecelioğlu, 2006, 2007) Furthermore according to Meyer and Allen (1988) affectively committed employees may benefit from a sense of importance and belonging that comes from attachment to an organization. Thus, it is also expected that affective commitment will be positively related to employee creative behavior. It is suggested that:

H2: Affective commitment will be positively related to creative behavior of employee.

Theoretical and empirical studies have examined relationship between job attitudes and organizational citizenship behavior. Previous research discovered that organizational commitment is important predictor of citizenship behaviors (Brief and Motowidlo, 1986 ; Organ, 1988; Organ and Ryan, 1995; Meyer et al., 2001). For example, the meta-analysis' conducted by Organ and Ryan (1995) revealed that organizational commitment was significantly correlated with both altruism and compliance dimensions of OCB at roughly the same level as satisfaction. In addition, study of Meyer et al (2001) found that affective organizational commitment consistently has been linked to positive employee behaviors such as OCBs and helping behaviors. Additionally, Cohen (2006) found organizational and group commitment have significant effect on OCB altruism. Furthermore Cohen (2005) found that organizational commitment, group commitment, and job involvement will be related to OCB and in-role performance more strongly than occupational commitment. According to organizational commitment study, employees who experience positive exchanges with the organization, the job, or the work group will reciprocate with higher levels of commitment, which will motivate them to contribute to the organization in other ways, such as reduced turnover, better performance (Cohen, 2006, p.108) or citizenship behavior (Organ and Ryan, 1995; Meyer et al., 2001). Thus, the following hypothesis is suggested:

H3: Affective commitment will be positively related to OCBs.

METHOD

Sample, Procedure and Measures

In order to test the hypotheses, data was collected from three firms that have activities in chemistry industry in Kocaeli-Yalova region. After deleting records with missing cases 247 completed questionnaires were remained, which constituted the sample for this study. 80 % of the respondents were men and 81 % of the respondents were married. The mean age of the sample was 33 years. 40% of the participants are university graduates and 60% of them have a high school degree. 41% of the participants had worked for at least ten years for their organizations. 53 % of the sample are staff and whereas 43 % of them are middle level managers.

The constructs in this study are developed by using measurement scales adopted from prior studies. All constructs are measured using five-point Likert scales with anchors strongly disagree (= 1) and strongly agree (= 5). Items for measuring "affective commitment" (6 items) were adopted from Meyer and Allen (1997). Scale of OCBs was adopted from Podsakoff's (1990) 20-item scale. Similarly, selected items from Sungur (1997) are used for measuring Creative Behavior (6 items).

Factor Analysis and Correlations

The best fit of the data was obtained with a principal component analysis with a varimax rotation. After eliminating four poor performing items of sportsmanship dimension, the exploratory factor analysis of all scale items displayed an eight-factor structure including affective (AC), normative (NC) and continuance (CC) commitment, civic virtue (CV), consciousness (CN), altruism (AL) and courtesy (CO) dimensions of citizenship behaviors and intention to leave (IL). Therefore, the construct of citizenship behaviors have been utilized as a four-dimensional variable in the subsequent analysis. The Alpha reliabilities of the factor were 0.87, 0.75, 0.72, 0.80, 0.78, 0.84, 0.69 and 0.82 respectively (Table 2). The factor loadings are included in Table 1.

Means and standard deviations of each variable and correlation matrix of all variables were calculated. Means, standard deviations, reliabilities and correlations among all scales used in the analyses are shown in Table 2. As it can be viewed from this table, the internal consistency reliabilities of all variables measured in this study were quite reliable. The findings in Table 2 indicated that, all the independent variables investigated were significantly related to creative behavior. According to correlation analysis affective commitment is correlated with creative behavior positively ($r=.336$). All dimensions of citizenship behaviors were positively correlated with creative behavior. However, civic virtue is the strongest variable that was correlated with creative behavior ($r=.625$). The other most variable correlated with creative behavior is affective commitment. Besides, it was found that affective commitment was positively related to all dimensions of OCBs. In sum, these findings support H1, H2 and H3.

Table 2. Descriptive Statistics, Correlations and Alpha Reliabilities of the Measures

Variables		Mean	Std Dev.	1	2	3	4	5	6	7
Affective Commitment	1	4.34	.64	0.92(a)	.303**	.341**	.518**	.589**	.581**	.336**
Altruism	2	4.53	.56		0.73(a)	.496**	.421**	.386**	.759**	.299**
Courtesy	3	4.40	.65			0.79(a)	.496**	.348**	.746**	.268**
Consciousness	4	4.43	.54				0.74(a)	.479**	.803**	.298**
Civic Virtue	5	3.51	.84					0.75(a)	.733**	.409**
Overall OCB	6								0.81(a)	.420**
Creative Behavior	7	4.25	.52							0.82(a)

** Correlation is significant at 0.01; *Correlation is significant at 0.05; ; (a) Croanbach's Alpha

Regression Analysis

In order to examine the effects of affective commitment, and organizational citizenship behaviors on creative behavior, four multiple regression models were developed and the relative effects of the dimensions of citizenship behaviors and affective organizational commitment on creative behavior of employees were compared. All models were found to be statistically significant ($p < 0.001$). In Model 1, the effects of affective commitment on creative behavior was investigated and the results revealed that affective commitment has significant effect on creative behavior ($\beta=.336$). In Model 2, the effects of altruism and courtesy based citizenship behaviors on creative behavior were investigated and the results revealed that altruism and courtesy have significant effects on creative behavior and the effect of altruism is higher than the effect of courtesy on creative behavior. According to Model 3, both consciousness and civic virtue have significant effects on creative behavior. In the last model (Model 4) the effects of all dimensions of citizenship behaviors on creative behavior were investigated and results indicated that altruism and civic virtue have positive effects on creative behavior. Furthermore, the effect of civic virtue on creativity is stronger than the effects of other variable on creative behavior.

Table 3: The Effects of Affective Commitment and Citizenship Behaviors on Creative Behavior

Independent Variables	Creative Beh. Model 1		Creative Beh. Model 2		Creative Beh. Model 3		Creative Beh. Model 4	
	β	t	β	t	β	t	β	t
Affective Commitment	.336	5.57**						
Altruism			.219	3.14**			.116	1.67*
Courtesy			.161	2.30*			.072	1.00
Conscientiousness					.133	2.01*	.066	.91
Civic virtue					.346	5.23**	.307	4.55**
Model F	31.08**		14.86**		26.95**		15.09**	
Model R ²	.113		.109		.181		.209	

** Correlation is significant at 0.01; *Correlation is significant at 0.05

RESULTS

A key source of organizational creativity is the creative behavior of the people they employ. Employees may exhibit creativity by developing solutions to job-related problems, developing new knowledge, new products and technologies, or making process improvements. However, this creativity does not happen automatically. Firms and their managers must ensure that their employees will make creative contributions (Cummings and Oldham, 1997: 22). This study suggests that coworkers' OCBs and affective commitment have a positive influence on fellow employees' creative behavior by making organizations more attractive places to work for one's coworkers.

This study considers citizenship behaviors as a multidimensional construct and compares the effects of altruism, courtesy, conscientiousness and civic virtue dimensions of organizational citizenship behaviors and affective commitment on creative behavior. Consistent with the developed hypotheses, correlation analysis revealed that affective commitment was positively related to altruism, courtesy, conscientiousness and civic virtue. Especially, the results indicated that the relationship between affective commitment and civic virtue ($r=.587$) is higher than the relationship between affective commitment and the other dimensions of citizenship behaviors. These results have indicated that affective commitment to organization is an important antecedent of OCBs in a Turkish chemistry work context and employees who have affective commitment with their organization are more likely to engage in OCBs. Similarly, some other research indicated that organizational commitment has positive effects on OCB in Western countries (O'Reilly and Chatman, 1986; Morrison, 1994; Organ and Ryan, 1995"; Meyer et al., 2001).

One of the other main results of this study is that affective commitment has a positive and strong effect on creative behavior. This result indicates that, employees' affective committed to an organization's goals internalize organization goals and develops original and better ways to accomplish these purposes. Since the development of the citizenship behaviors concept, some research has explored the relation between OCB and employee or organizational effectiveness (Podsakoff and Mac Kenzie, 1997: 134). But the relationship between OCBs and creative behavior were not examined. For this reason this study is important. Research indicated that especially altruism and civic virtue based citizenship behaviors of employees have increased creative behaviors. These findings show us helping and voluntary activities of employees contribute to create healthier work environment, leading to increase creative behavior and promote the goals of the organization as a whole.

This research indicated that affective commitment and organizational citizenship behaviors of employees have increased subordinates' creative behavior. Therefore, managers who want to benefit from employee' creative behavior should encourage especially affective commitment and citizenship behaviors of employees. They should first discover the right kind of activities that may contribute to organizational commitment and citizenship behaviors of employees and they should constitute work environment that encourage creative behavior of employees. Supervisors and top management should understand the other antecedent factors of citizenship behaviors and take necessary actions to strengthen the positive influences of such factors if they are willing to increase creativity and innovativeness in their organizations.

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MANAGEMENT OF BEHAVIORAL ISSUES IN STRATEGIC PROJECTS

Mojtaba Azizi
Saeed Rokooei
Tarbiat Modares University, Iran

Mohammad Hossein Sobhieh,
Amir Albadvi,
Ehsan Forsatkar
Shahid Beheshti University, Iran

ABSTRACT

Strategic projects are main parts of strategy performance in organizations and failure in such projects causes failing in strategies, targets and missions of the organization.

Nowadays, strategic management entirely develops in various contexts such as strategic thought, strategic decision making and usage of technical and analytical management methods.

Despite of the basic role of behavioral issues within strategic executive teams, the effect of these behavioral patterns has been disregarded.

In this paper, the strategic behavior concept and the importance of attention to behavioral issues in strategic project management are stated. In addition, by representing of some techniques in recognition and management of strategic behavior, applied guidance are proposed to strategic project managers.

Keywords: Strategic Behavior, Management of Strategic Projects, Project Management, Management techniques of Strategic Projects

INTRODUCTION

In explanation of the most credible references, strategic projects are main elements in execution of strategy in organizations. [1,2,3,4,5,6] Although strategic projects are known as major ways to relate operation management and strategic management in recent years, but shortage of analytical and behavioral techniques in management of such projects prevents the complete success of them.

As shown in Fig.1. , nowadays, some issues such as defining objectives and strategies, planning and controlling the time and resources of project (top of iceberg) often were focused in project management but still lower levels of this iceberg encompass issues were not scrutinized.

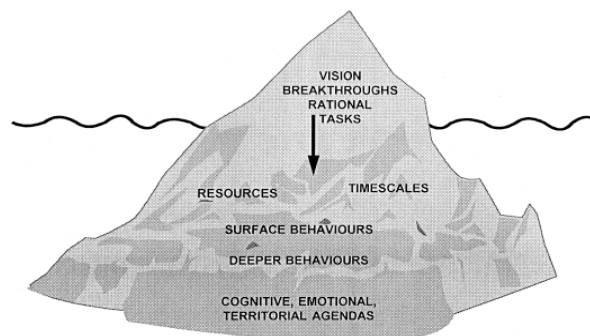


Fig.1 : Underlying strategic project iceberg

Management of the behavioral motivation which affects strategic projects is important as much as other analytical and quantitative motivation. It is needed to create some techniques for decreasing and removing behavioral shackle in project management especially project with strategic nature.

In this paper, first, some concepts like strategy, strategic projects and strategic behavior are clearly stated, then by analyzing history and importance of subject in strategic behavior management, some useful techniques of strategic behavior will be identified. Last, after a short analytical argument, the conclusion of this paper is presented accompanied with suggestions for management of behavioral issues in strategic project.

2- BASIC CONCEPT

For comprehensive understanding of all issues in this paper, acquiring with some concepts such as strategy, strategic project, and strategic behavior is necessary. Thus the definitions of these concepts will be presented as below:

2-1- Strategy

First definition of strategy was stated about 5 centuries ago when Greek word “strategia” translated as military government and after that strategy was known as an issue which was used in military organization and leading war in offensive and defensive deploy.[7]

For most people strategy is a plan. In other word, strategy is a collection of aimed acts and carriers.

Therefore: first, strategy is created before occurrence. Second strategy is rational but Mintezberg makes difference between deliberate strategy and emergent strategy. He says that a deliberate strategy codifies with predecessor purpose and then becomes unfold while the second type emerges without predecessor purpose.

Strategy at managers’ viewpoint is a future based and large scaled project having relationship with competitive environment in order to optimize achieving the organization objectives.

Although strategy do not state all of future needs (human resource, financial, material) but create a framework for managing decision making [9].

A general definition adapted to Chandler's, Wright et al and his partners, stated below:

“Strategy is senior management plans to achieve result according to organization objective and mission”[10]

Porter says that strategy is doing different duties or doing the same duties in different ways.[10,11,12]

Regardless to what strategy is and how codified, and based on definition mentioned above, it can be concluded that strategy is an approach that an organization selects to achieve its objectives.

2-2- Strategic Project

Strategic project is a project that initiated to perform the organization strategies.[3] Business development, employment of human recourses, business processes reengineering, quality management and continuous improvement are samples of strategic projects. One of main objectives of strategic projects is development of capabilities and competitive advantages of an organization. Strategic projects are types of projects which generate growth and result in organization learning. In other words, strategic projects both fruit and fructify.

Asrilhant, in a research about strategic project management in oil industry in 2004 says that strategic projects are large, high risk, innovative, value-creative and position creator in market.[14]

2-3- Strategic Behavior

Strategic behavior is defined as: "The cognitive, emotional and territorial interplay of managers within (or between) groups when the agenda relates to strategic issues.[4]

This definition of strategic behavior stresses on the extent where cognitive, emotional and territorial perspectives and agendas of managers are interwoven. Thus, we are more able to understand those aspects of strategy implementation which perhaps, are less easily discussible by managers. This difficulty could be due to this fact that they involve power (Whether manifested through offensive or defensive behavior or through alliance) or because of emotional sensitivities. [1]

3- IMPACT OF BEHAVIORAL ISSUES ON STRATEGIC PROJECT PERFORMANCE

In order to understand the impact of behavioral issues on strategic projects performance, we study the result of two famous but defeated strategic projects as below:

The first project is West Bridge in Australia. In this project, the price and time increased three times over the base schedule. Furthermore, 35 people were killed during the project execution. A comprehensive investigation about this project showed its main problems are behavioral issues such as lack of confidence in project team to senior managers (Trust Gap), lack of problem reflection (Reflective Gap), lack of opportunity for expression of idea (Openness Gap) and disproportion of progress tools with project. Unlike initial expectation, technical problems had the least impacts in this project.

The second project is Colombia satellite that exploded in the space and in some experts opinion it postponed NASA space research process. The reason of this disaster backed to the history and culture of the executive program in NASA. Because of the official and unfixable atmosphere in the project, individuals did not reflect problems. Manager had imperious manner and focused on bureaucracy and organization process was very usual. In this project, the responsible individual (project manager) did not like to believe most of problems and this point disturbs the space of openness and reflection of problems. [13]

Regard to main impact of behavioral issues on strategic project performance, concentration on behavioral issue should be noticed accompanied by technical issues. It can be said that behavioral issues management is the same important as technical issues. In the next section we will study the history of some issues related to strategic behavior and the amount of attention in strategic project management literature.

4-HISTORY OF STRATEGIC BEHAVIORAL ISSUES

On the contrary of the technical issues, there are few regards to behavioral issues in project management texts published in recent years, beside few empirical researches with focus on strategic issue had been done before 2000. [1] Johnson in his book in 1986 says: "it is so wonderful that a few regular researches tend to analyze the role of individuals relation in strategic decision making." [15] Mintzberg criticizes the process of strategic planning and says:"this process considers strategic development as an analytical process whereas managers do not use this". Other authors of strategic issues seldom notice to strategic behavior. For instance, Ansoff in 1987 wrote about the effect of paradigms and how organizations adopt themselves to critics with passive behavior; however he did not define strategic behavior. Dixit and Nalib in 1991 began their book with this question "what the strategic behavior is", although they did not define it.

In strategic learning literature, Peter Senge in 1990 and Pitman in 1986 emphasis that organization learning is an important process in strategic relations even if these relations be full of passive behaviors. Except this, Janis in 1989, Schein in 1986 and Pascal in 1990 noticed to strategic behavior and its importance in strategic learning literature. In project management standards and books in recent years, behavioral issues have been mentioned, however ICB European standard -one of the main standards in project management- regards particularly to behavioral capabilities of a project manager. This standard allots 15 items out of 46 capabilities which are needed for a project manager to be used as his behavioral capabilities (table 1). By defining an optimum model for a project manager in each of behavioral capabilities, this standard tries to identify which capabilities a manager should grow.

Behavioral capabilities of a manager based on relations between individuals and groups involved in project, program, and portfolio of projects.[14]

1- Leadership	2- Proficiency
3- Motivation	4- Advisory
5- Continent	6- Negotiation
7- Courage	8- Critics
9- Solace	10- Trust
11- Open mind	12- Ordinance
13- Creativity	14- Profession manner
15- Result-based	

Table 1- behavioral capabilities needed for a project manager

Regards to what stated above, a gap in this case can be seen and it needs more research in this field.

5- TOOLS AND TECHNIQUES OF STRATEGIC BEHAVIOR MANAGEMENT

[This section is written mainly based on Grundy research]

before introducing tools and techniques of strategic behavior management, it is necessary to mention that amounts of behavioral analysis methods are extremely limited and a few quantitative researches had been done about this subject. The techniques introduced for the strategic behavioral management were used in a research in British Telecom with focusing on strategic behavior of a senior team and it had satisfactory results. [1, 4] It is essential to say that some of these techniques had been known during this research. For better understanding of behavioral issues methods in strategic project management and their functions, these methods categorized in 3 groups in Fig 2 as below:

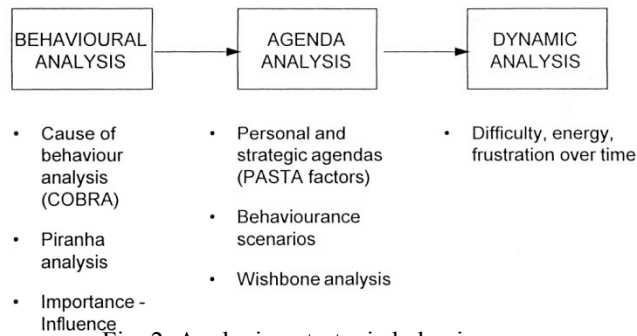


Fig. 2. Analyzing strategic behavior.

First group analyze the behaviors. It is important that a specific behavior from individuals, managers and other stakeholders be analyzed and its personal and behavioral factors illustrated. Thus, In this group, the probably problems, were studied and possible solutions were presented too. In second group, the main objective is prediction of future behavior of individuals according to their internal features and type of activities. Therefore, the main objective is future events not current. In third group, which includes only one method (frustration and energy over time curve) has been stepped and dynamic behavioral analysis is measured.

5-1- Cause of behavior analysis (COBRA)

This method applies root cause or fish bone analysis [1] to behavioral issues. It can be used for getting hold of less tangible factors.

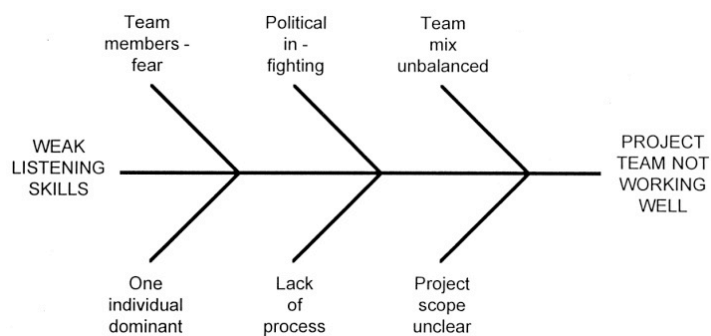


Fig. 3. Cause of behavior analysis. (Factors of insufficient performance in project team) (COBRA)

CORBA analysis can be used to understand:

- Reasons of inappropriate behavior of a team
- Dysfunctional behavior of an individual related to project team
- Recognition of areas which need to deal with

Potential weakness of COBRA analysis might be:

- Managers often noticed to apparent causes rather than root causes
- Generally, main root causes are missed because these factors are usually hidden or mis-defined.

- Using of this analysis result may cause sensitivity; therefore COBRA hardly might be used.

5-2- Piranha analysis

This method is a refinement of fishbone technique. Each behavioral problem may not affect the project success but a complex of these factors can lead the project to defeat. (Piranhas are small fish but they move and attack in shoal form.)

sometimes the sub problems in a project might be mis-defined. Thus, managers should try to analyze all dimensions of problems.

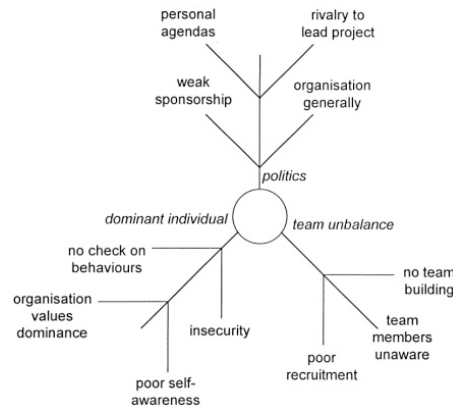


Fig. 4: Sample of Piranha analysis

5-3- Importance-Influence Diagram

This method presents the sketch of key assumption related to behavioral impacts in project as a graph and illustrates the comparison of them. Beside, this analysis shows that how the less important assumptions arrive at high risk area rapidly. This analysis can be used for prioritizing behavioral interventions. As shown in Fig. 5, the north east quadrant is the main area because having the most important and effective factor at the same time.

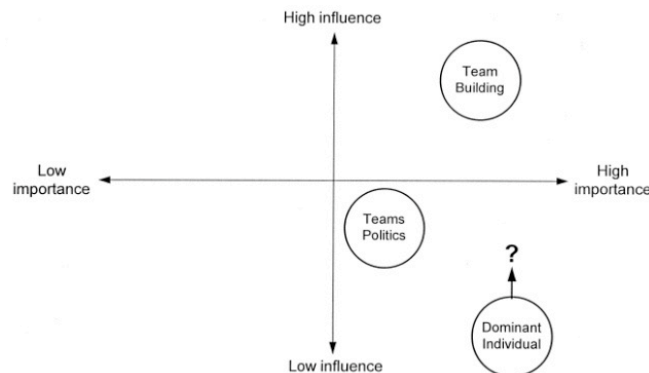


Fig. 5: Importance-influence analysis based on Piranha analysis.

5-4- Personal and strategic agenda

Sometimes, we may need to perforate the internal layers of individuals. Because both personal and strategic agenda are often intertwined, this method called PASTA (spaghetti)

This method can yield some important insight. For instance, Fig. 6 shows a fore field of one individual's personal and strategic agenda. There are two types of force in this analysis: attractors and repellers. The enabling forces called attractors. In order to get a proper handle on someone's PASTA factors, it is necessary to simulate the out of body experience which entails one imaging. PASTA analysis is an important prelude for creating behavioral

scenarios in strategic project.

For instance, a certain stakeholder might have different sub personalities

- Objective of one personality might be the cleverest in team.
- Another personality may wants to keep all of his doing in the past and protect them.
- The third personality might be helpful, kind and supportive in changes.

PASTA analysis needs to weigh up the likelihood of a certain sub personality coming to the fore in this position.

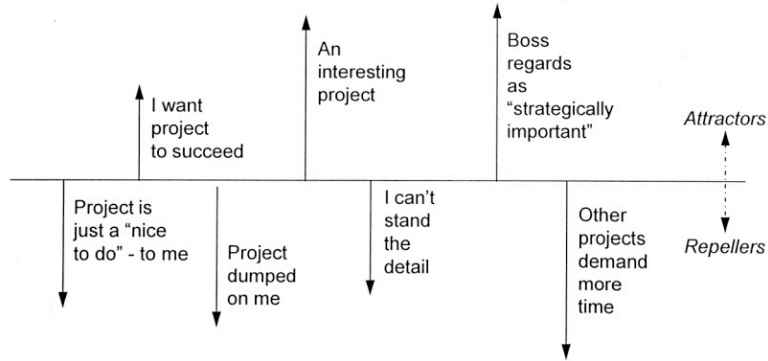


Fig. 6 : a sample of PASTA factors

5-5-Behavioral scenarios and wishbone analysis

Behavioral scenarios include organized prediction about how the future of strategic project can progress. The first step is plotting some key assumptions about behavioral effect in the project. Fig. 7 illustrates this situation. Besides, it indicates where particular behavioral assumption -either less importance or lesser uncertainty- can quickly move into the south east of uncertainty grid. (its danger zone)

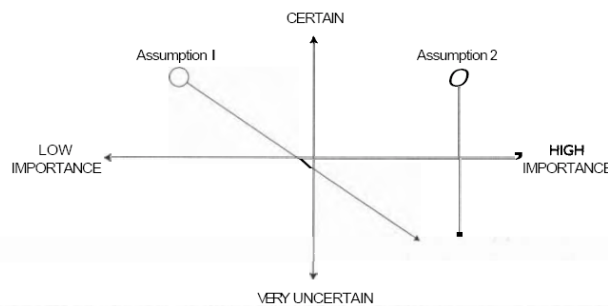


Fig. 7: Importance- Certainty diagram

Behavioral scenarios can be refined by storytelling. It is very possible that these scenarios turn to be completely off-beam and this is a potential problem in using these scenarios. Despite that, the alternative does not see viable. If there would be a real doubt about one certain scenario that fails to taste out main behavioral turning points, then we can develop a second or even a third scenario. Wish bone analysis is a powerful method for making sure that not only the necessary but also the sufficient condition are created to achieve a behavioral outcome. [4]

By using wishbone analysis, the important area to guard against is that however imaginative managers are they may fail to capture the one or more factors which still need to be aligned but currently are not.[4]

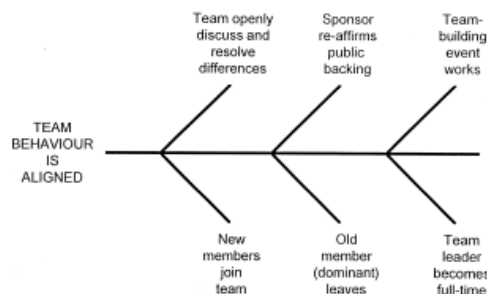


Fig. 8 : Wish bone analysis

5-6 Difficulty, energy and frustration over time curves

Although what stated is useful for deep perception to strategic behavior factors related to strategic projects, still dynamic of these behaviors should be considered. For this purpose, difficulty, energy and frustration curves over time were used by Nokia & Amersham for the first time. Nokia, especially uses these curves for encouraging managers to anticipate future behavioral problems.[1] Fig. 9 plots behavioral difficulty and energy over time for a typical strategic project.

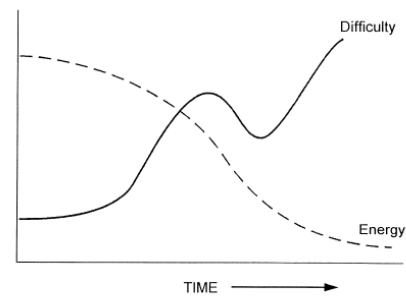
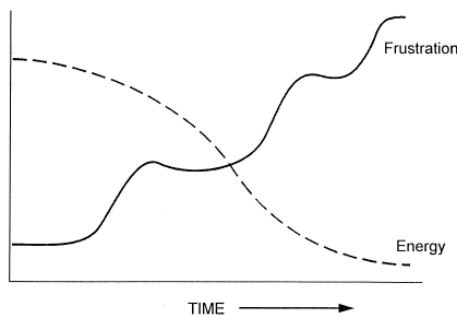


Fig. 9: Difficulty and energy over time curves



We can see when the behavioral difficulty increase; the energy of team goes down frequently. This reduction in energy is owing to the team that gets less eager as well of increasing behavioral difficulty (obviously, if the tools mentioned in source [1] were used, this could be avoided). By using Fig. 9, we can understand that why strategic project fails at an interval of six month right after beginning. Fig. 10 shows energy and frustration curves over time. Like before, as the energy goes down, the frustration increases unless the energy be injected to the system.

Fig. 10. Energy and frustration over time curves.

At Nokia, drawing these curves revealed patterns referred before. This supported the idea that managers direct project from now to future rather than the backward from future to present. Of course, for extending these cases, activities, belief and confusion are combined over time to previous events.

The main concern about this technique is the probability of occurring subjective behavior while plotting. For solution, besides collecting various and independent inputs, we can ask different question like "why do you think this project will get more difficulty at time T ?" from managers.

6- RESULT OF USING STRATEGIC BEHAVIOR MANAGEMENT'S TECHNIQUES

Mr.Grundy – the British Telecom counselor- was charged to prepare the way for success in doing some strategic projects from behavioral view. In sequence, he used these steps:

- 1-Opening interview with team members.
- 2- Observation at a primary strategic workshop where managers interacted in their usual style.
- 3- Making an abstract of interview in order to reflect behaviors and recognize what is known as behavioral problems.
- 4- Feedback to the team by presenting obtained behavioral pattern with discussing.
- 5- Facilitation by the researcher on another strategic workshop for making changes in team behaviors.
- 6- Observation of final strategic workshop to change the manager's behavioral patterns from previous case.
- 7- Preparing a final feedback from entirely finding.

The process above took long about 4 months to give chance for changes in behaviors. The results were as below:

- 1- Managers get disappointed in confrontation with low speeds of strategic projects' rate. Some discussion finish without any clear result and others usually become conclusive, because of behavioral disagreements.
- 2- The cause of behavior analysis (COBRA) is a powerful assay for managers o analyze and feedback. This method let managers to intervene in the team properly and can be used for anticipating future in order to change for betterments.
- 3- It is an interesting point that in sessions, the members focus on slight and unimportant subjects compared with important and strategic ones. Feedback of this situation shows the level and dynamic of discussion and reveals the effect of surplus punctiliousness. (This situation named rabbit hole thinking). Fig. 11 and 12 shows the level of generality in sessions over time.

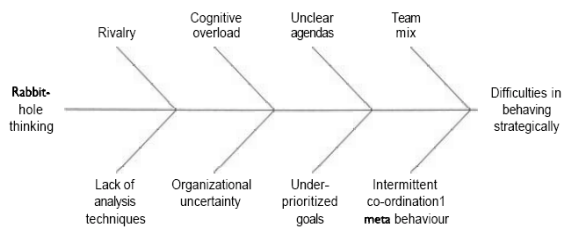


Fig.11: COBRA analysis related to behavioral problems in BT strategic projects

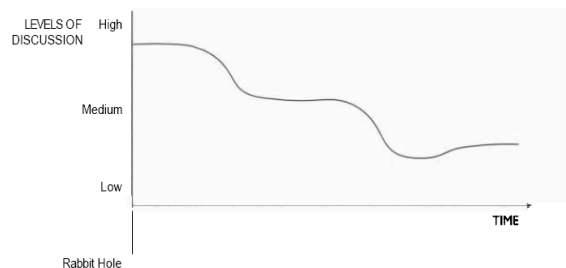


Fig. 12: levels of discussion over time in BT sessions

4- Another important finding obtained from next projects interview. Only when the team focuses on subject and shares comprehensive and assumptions between members, it can reach to maximize cumulative power and harmony in behavior thus by having more clarity in the team, less behavioral problems occur.

5- The next finding is about certain behavioral factors which direct managers' insight. The main factor is managers' personal intentions Including feeling, emotions, thought, abilities and other individual characteristics. This territory is very important specially when the project is complicated and its efficiency depends on team's comprehensions. When managers can challenge their behaviors, fundamental changes occur in manner and idea challenges changes to potencies. The result of this research shows the satisfaction of members about revealed structure of behavioral patterns and needed changes. Thus this method got used for next project also. COBRA analysis was powerful in reflecting managers' behavior. Therefore it was effective in changing manners. By using individual instruction method, the area of members' idea can be detected and disputes got prevented.

7- CONCLUSIONS

1- There is no doubt in value of strategic management, but its success gets weak without behavioral and analytical techniques. Although there are many researches on these techniques and they are widely used by managers, few effective and applicable tools for recognition behavioral factors are introduced and used by managers.

2- Generally, interaction between members in project, leads them to the success. Many authorities think to make stronger team work, regardless to the importance of behavioral and individual patterns. In strategic management literature, mostly paid attention to strategic decision making and there is a few cases about behavioral patterns dealing with problems.

3- On the other hand, suchlike cases that handle with behavioral subjects have usually positivistic look and neglect the human role which is the nature of topic. This mechanical look to human's manner and character causes unreliable and time variable results from analysis.

4- It can be seen that in behavioral discussions the focus is on strategic project members and managers and their behavioral factors whereas the other beneficiaries are noticeable and inputting them in our analysis is very important.

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PERCEIVED ORGANIZATIONAL SUPPORT AND ORGANIZATIONAL CITIZENSHIP BEHAVIOR: A STUDY OF HOTEL EMPLOYEES IN CAPPADOCIA

Emine Ogut
Selcuk University, Turkey

Ibrahim Ilhan and Metin Kaplan
Nevsehir University, Turkey

Melis Attar
Selcuk University, Turkey

ABSTRACT

The aim of this study is to analyse relationship between perceived organizational support and organizational citizenship behaviour in hotel businesses. According to results of correlation analysis a positive relationship between perceived organizational support and conscientiousness and civic virtue, subdimensions of organizational citizenship behavior, was determined while no significant relationships were found between perceived organizational support and other three variables such as altruism, courtesy, and sportsmanship.

Key words: *Perceived Organizational Support, Organizational Citizenship Behavior, Hotel Businesses*

INTRODUCTION

Customer satisfaction is based on employees' performance to a great extent in tourism businesses in which they work hard and at irregular work hours. Cooperation and mutual assistance is an indispensable prerequisite to provide an efficient service in hotel businesses, which requires employees' organizational citizenship behaviour.

Development of organizational citizenship behaviour is based on some antecedents. This study focuses on perceived organizational support defined as "global beliefs concerning the extent to which the organization values their contributions and cares about their well-being" (Panaccio and Vandenberghe, 2009: 224). Employees who feel that they have been well supported by their organizations tend to reciprocate by performing better and engaging more readily in citizenship behaviour than those reporting lower levels of perceived organizational support (Wayne et al., 1997: 90).

In this context, the research objective of this study is to investigate the relationship between perceived organizational support and organizational citizenship behavior (altruism, courtesy, sportsmanship, conscientiousness, and civic virtue) in five-star hotel businesses.

Perceived Organizational Support

Perceived Organizational Support (POS) is a unidimensional measure of the general belief held by an employee that the organization is committed to him or her, values his or her continued membership, and is generally concerned about the employee's well-being (Hellman et al., 2006: 631). According to organizational support theory, POS meets socioemotional needs, provides assurance that aid will be available when needed, and indicates the organization's readiness to recompense efforts made on its behalf (Eisenberger et al., 2001: 42). POS corresponds to the degree to which employees feel that the organization that employs them is willing to equitably compensate them for their efforts, help them in case of need (e.g. illness, work-related problems), make their work interesting and stimulating, and provide them with adequate working conditions (Aube et al., 2007: 480).

Eisenberger and colleagues suggested that an employee's perception of how an organization values him or her may be vital for determining if any attitudes or behaviours benefiting the organization emerge from social exchange relationship (Moorman et al., 1998: 351). Employees having the perception of strong organisational support are more likely to behave on behalf of the organisation theoretically. In this frame POS is usually associated with Blau's (1964) social exchange theory, which argues that employees will trade their efforts for the promise of material and personal rewards that the organization may offer in the future (Stamper ve Johlke, 2003: 571).

Organizational support theory also addresses the psychological processes underlying consequences of POS. First, on the basis of the reciprocity norm, POS should produce a felt obligation to care about the organization's welfare and to help the organization reach its objectives. Second, the caring, approval, and respect connoted by POS should fulfil socioemotional needs, leading workers to incorporate organizational membership and role status into their social identity. Third, POS should strengthen employees' beliefs that the organization recognizes and rewards increased performance (i.e., performance-reward expectancies). These processes should have favourable outcomes both for employees (e.g., increased job satisfaction and heightened positive mood) and for the organization (e.g., increased affective commitment, performance and organizational citizenship behaviour reduced turnover) (Rhoades and Eisenberger, 2002: 699).

Organizational Citizenship Behavior

Organizational Citizenship Behaviour (OCB) is one of the positive behavioural consequences of POS, and defined as extra-role behaviour that is discretionary and not explicitly related to the formal reward system of an organization but is conducive to its effective functioning (Niehoff and Moorman, 1993: 529; Organ, 1997: 86). OCB displays the following characteristics: (1) behaviour which is above and beyond that formally prescribed by a person's organizational role, (2) discretionary behaviour on the part of the employee, (3) behaviours not directly or explicitly rewarded in the organization's formal reward system, and (4) behaviours important for the effective and successful functioning of the organization (Piercy et al., 2006: 247). Volunteerism is the prerequisite for OCB. Organ (1988) classifies OCBs into five categories: altruism, courtesy, sportsmanship, conscientiousness, and civic virtue.

Altruism is described as those behaviours that have to do with helping a specific person, (supervisor, co-worker, or client) (Barksdale and Werner, 2001: 146). (e.g., voluntarily helping less skilled or new employees and assisting coworkers who are overloaded or absent) (Yoon and Suh, 2003: 598).

Courtesy, which describes the gestures that people exhibit at work to help prevent work problems for others (Konovsky and Organ, 1996: 255).

Sportsmanship consists of actions that employee refrain from complaining, doing petty grievances, railing against real or imagined slights, and making federal cases out of small potatoes (Yoon and Suh, 2003: 598).

Conscientiousness is discretionary behaviour that goes well beyond the minimum role requirements of the organization (e.g., working extra-long days, returning phone calls from the home office promptly, never bending the rules, entertaining only when it is clearly in the best interest of the company to do so) (MacKenzie et al., 1993: 71).

Civic virtue, responsibly participating in the life of the firm (e.g. attending meetings/functions that are not required but that help the firm, keeping up with changes in the organization, taking the initiative to recommend how procedures can be improved) (Dimitriades, 2007: 473).

Previous research has demonstrated that POS relates positively to organizational citizenship behaviour (e.g., Shore and Wayne, 1993: 777; Moorman et al., 1998: 354). Shore and Wayne (1993) investigated the relationship between perceived organizational support and organizational citizenship behaviour on employees and their direct supervisors working in a large multinational firm headquartered in the southeastern United States. According to the results, positive relationship between POS and OCB was found out. Results also indicate that POS is a predictor of OCB. Wayne et al., (1997) found out positive relationship between perceived organizational support and organizational citizenship behaviour of employees with at least five years of tenure at a large corporation in the United States. Wayne et al., (2002) found out positive relationship between perceived organizational support and organizational citizenship behaviour in the research on employees and their direct supervisors from two metal fabricating plants that are subsidiaries of a Fortune 500 company. Piercy et al., (2006) found out positive relationship between perceived organizational support and organizational citizenship behaviour in the research

on sales persons. Liu (2009) examined the relationships between organizational support and organizational citizenship behaviour in multinational corporations located in Mainland China. Results indicate that perceived organizational support is significantly related to organizational-directed OCB.

Researches in the related literature support the social exchange view that POS develops feelings of obligation that contribute to organizational citizenship behaviours. In the light of these findings, the following hypothesis will be tested:

H₁: There is a positive relationship between perceived organizational support and altruism.

H₂: There is a positive relationship between perceived organizational support and courtesy.

H₃: There is a positive relationship between perceived organizational support and sportsmanship.

H₄: There is a positive relationship between perceived organizational support and conscientiousness.

H₅: There is a positive relationship between perceived organizational support and civic virtue.

METHODOLOGY

Sample

The sampling is from employees in five-star hotel businesses licensed by the Tourism Ministry in the Cappadocia Region. Participants work in front offices, food and beverage, and storey services departments of these hotels. Interviewers were recruited to distribute to 150 subjects. In total 135 employees responded to the survey. Of the employees who responded, 128 provided useable questionnaires on all study variables for a response rate of 85.3 per cent.

TABLE 1

The demographic profiles of employees are shown in Table 1. 32.8% of participants that responded to the questionnaire were female and 67.2% were male. 68.8 percent of the respondents were married and 31.3 percent were single. Almost 75.0 percent of the respondents were younger than 30 years old. In terms of education levels, 21.1% of participants had graduated from primary school, 55.5% from secondary school, and 17.2% from high school. 6.3 percent of the participants had a bachelor's degree. When worked departments are taken into consideration, it is seen that the participants to the survey are more employed in food and beverage (43.8 percent), front offices (28.9 percent), and storey services departments (27.3 percent) in these hotels. 52.3% of the participants completed the tourism and hotel management training.

Measures

Organizational citizenship behavior (altruism, courtesy, sportsmanship, conscientiousness, and civic virtue) was designated as the dependent variable in this study, while perceived organizational support was considered as the independent variables. To measure perceived organizational support, we used the short version of Perceived Organizational Support Scale with 10-items developed by Eisenberger et al. (1992) and Lynch et al. (1999). Participants responded on a 5-point Likert-type scale dictating to the extent which they agreed with each statement as it reflected their present work environment (1= strongly disagree, 5= strongly agree). The internal reliability estimated for this sample was 0.80. On the other hand, organizational citizenship behaviour was measured with 20 items 5-point Likert scale (1=strongly disagree, 5=strongly agree) developed by Podsakoff and MacKenzie (1989). The items were classified in terms of the five dimensions of altruism (helping other members of organization in their tasks), courtesy (preventing problems deriving from the work relationship), sportsmanship (accepting less than ideal circumstances), conscientiousness (dedication to the job and desire to exceed formal requirements in aspects such as punctuality or conservation of resources), and civic virtue (responsible and constructive involvement and participation in issues confronting the group and organization) (Dimitriades, 2007: 473; Konovsky and Organ, 1996: 257). Each subscale contained 4 items and Cronbach's alphas were as follows: 0.84 for altruism, 0.86 for courtesy, 0.68 for sportsmanship, 0.78 for conscientiousness and 0.88 for civic virtue.

RESULTS

Table 2 shows means, standard deviations, correlations among variables, and cronbach's alpha coefficients.

TABLE 2

As shown in Table 2, as a result of Pearson correlation analysis perceived organizational support had significant and positive relationships with conscientiousness ($r=.227$; $p<0.01$) and civic virtue ($r=.177$; $p<0.05$). According to these findings H_4 and H_5 were supported. This finding was similar to the study results of Liu (2009). No significant relationships were found between POS and other three variables such as altruism, courtesy, and sportsmanship. In this respect, H_1 , H_2 , and H_3 were not supported. Conscientiousness and civic virtue are related directly to the contributions of individuals to the organization while altruism, courtesy, and sportsmanship are concerned with the individuals' interaction with others. Hence, it is an expected result that there is positive relationship between POS and conscientiousness and civic virtue.

The following suggestions can be offered in order to get employees to have the perception of a supportive organization;

- Creative ideas, suggestions, and comments of the employees should be taken into consideration,
- An effective communication system should be provided,
- A participatory management approach should be adapted.

There are potential areas for future research. It is suggested that antecedents and consequences of POS and OCB should be investigated for different industries or organizations.

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Table 1: Demographic Characteristics of Sample

Characteristics	f	(%)	Characteristics	f	(%)
Gender			Education Level of Participants		
Male	86	67.2	Primary school	27	21.1
Female	42	32.8	Secondary school	71	55.5
			High school	22	17.2
			Bachelor' degree	8	6.3
Status of a person			Worked Department		
Married	88	68.8	Front office	37	28.9
Single	40	31.3	Food and beverage,	56	43.8
			Storey service	35	27.3
Age					
Less than 25	29	22.7			
26-30	67	52.3			
31-40	25	19.5			
41 or more	7	5.5			

Table 2: Descriptive Statistics and Inter-correlations among Study Variables

	Mean	Std. Dev.	1	2	3	4	5	6
1. POS	3,62	0,60	(0,80)					
2. Altruism	3,53	0,99	,076	(0,84)				
3. Courtesy	3,62	1,07	,055	,631**	(0,86)			
4. Sportsmanship	3,56	0,83	,114	,603**	,600**	(0,68)		
5. Conscientiousness	4,03	0,67	,227**	,496**	,465**	,567**	(0,78)	
6. Civic virtue	3,73	1,00	,177*	,427**	,414**	,466**	,428**	(0,88)

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

** Correlation is significant at the 0.01 level (2-tailed).

INFORMATION TECHNOLOGIES AND E-BUSINESS

THE IMPACT OF INFORMATION TECHNOLOGY INVESTMENTS ON FIRM PERFORMANCE IN NATIONAL AND MULTINATIONAL COMPANIES

Cemal Zehir

Büşra Müceldili

Bülent Akyüz

Ali Celep

Gebze Institute of Technology, Turkey

ABSTRACT

*The aim of this study is to research the relationship between information technology (IT) investment level, IT usage, IT perception, IT at decision process, future orientation, technology orientation and firm performance in the comprehensive competitive environment. According to this aim, we researched the related literature and after developing a research model and hypotheses, we made numerous analyses. The data of this study were obtained from a sample of different **National and Multinational Companies** in Turkey. 158 firms were given the questionnaire which traded on ISE(Istanbul Stock Exchange) and 94 have answered and returned it, we narrowed our sample with 81 firms which really answered correctly and carefully. In accordance with literature, the findings of this study showed that IT investments are vital component of firm performance. If firms manage IT investments successfully, they will enhance firm performance. Moreover, the study enlightens not only the practitioners but also the academicians for the future researches.*

Keywords: Firm performance, information technology, information technology investment, technology orientation, future orientation.

INTRODUCTION

Based on literature on management strategy, unique resources in a firm played role for competition (Huang, Ou, Chen, Lin, 2006). Information technology (IT) can be accepted as a unique resource in a firm in the ends of the 20th century and 21st century. According to Grant, IT- based resources can be classified as: tangible resources that comprising the physical IT infrastructure components, human IT resources that comprising the technical and managerial IT skills, and intangible IT resources, such as knowledge assets, customer orientation and synergy. The long term survival of firms is closely related to their ability to successfully managed information technologies (IT) in today's harsh and rapidly changing business environment. IT is the fastest growing sector in the economy, with 68 percent increase in output growth rate projected between 2002 and 2012 (Callahan, Gabriel and Smith, 2009). And corporations have invested billions of dollars in information technology (IT) over the last 20 years (Ta Byrd, Te Marshall; 1997). The reason of this growth is due to three factors. First, IT is no longer primarily confined to backroom operations. As Ceo of Wal-Mart says, "At Wal-Mart and at many other companies, technology has become integrated with every aspect of the business". Second, the role of Ceo has been elevated from the back office to the board room and companies now emphasize the ability of Ceo with his or her contribution beyond IT functionality. Third, the use and misuse of IT have become fertile ground for an ever increasing number of opportunities to either gaininig a competitive advantage or falling into a position of competitive disadvantage (Dehning, Richardson, Staratpoulo, 2005). So manufacturer and service organizations must follow IT trend. This trend is about investments to hardware and software and globalization to the information technology networks (Wen&Sylia, 1999).

Despite the substantial investments in IT by corporations, direct linkage between technology investment and increases in productivity and performance have been extremely elusive. Anticipated benefits from technology investments include reduced costs, improved quality, increased flexibility, improved customer satisfaction, higher productivity and ultimately, higher financial performance. Because of the enormous expenditures on IT at today's organizations, researchers and practitioners through investigation, are seeking to understand better the relationship between IT and performance. To determine this relationship, researchers must discover the relationship between IT and organizational performance (Ta Byrd, Te Marshall; 1997). Although, for over a decade, the researchers have studied the impact of IT investments on firm performance, studies are inconsistent (Yao, Sutton, Chan, 2009). While some studies have found positive relationship between IT

investments and performance, other studies found a negative relationship, and numerous other studies showed no relationship (Ta Byrd, Te Marshall; 1997).

To overcome this perplexing situation, many IT scholars have used more rigorous and scientific research framework; large sample datasets, including additional factors such as a time lag, the information intensity of the industry, new methodology and new theories (Kim, Xiang, Lee, 2009). Moreover, the relationship between IT and firm performance differs from developing countries to developed countries. Because, economic growth, regulation levels, labor costs, IT skills and availability, and heterogeneity, competition, complementary organizational innovations and culture can be different across countries (Kim, Xiang, Lee, 2009). Therefore, the primary purpose of this paper is to investigate the relationship between IT investments and organizational performance as technology orientation and future orientation concept in IT investments in Turkey.

LITERATURE REVIEW AND DEVELOPMENT OF THE HYPOTHESES

In this study, we investigated the relationship between firm performance and IT investments. The effect of IT can be seen at different levels of analysis including individuals, groups, organizations, industries and societies. The level of analysis in this study is at the organizational level. This research investigates the behaviours of employee and managers who establish the long term interaction between information technologies and firms.

According to this aim, the related literature was researched, the research model and hypotheses were developed, and numerous analyses were made.

Information Technology Investments

According to economical view, IT is an input in the production process and there is an interaction between IT and other inputs. Thus, IT provides benefit to the organizations more than capital and labour. IT's benefits can be evaluated at the organizational, industrial and nation level (Hu& Quan, 2004). For providing performance, organizations should invest and coordinate IT effectively (RMS,2008).

In this study, the factors affecting firm performance have been analyzed under four main topics. These are IT investment level, IT usage, IT perception and IT at decision making process. At the first stage, we made a study of the effects of these four factors on technology and the future orientation, whereas we studied the effects of technology and future orientation on firm performance at the second stage.

IT enables the transformation of organizations activating on different industrial branches to associated marketing firms, whilst universalizing the strategical unions among the enterprises (Iraz, R, 2008). IT investments have an impact on economical growth. In consequence of consistent innovation and the usage of technology, new processes can be developed and product outcomes can be increased (Artzeni&Carboni, 2001). Information technologies set up communication platforms on the world by connecting people and gaining access to precise information by means of World Wide Web (Kraut, 1998).

H1: There is a relationship between IT investment level and firm performance.

Firms make the description of the daily problems confronting in their activities by using IT. IT usage guides to formulize the policies which will stimulate the economical growth and development. It also provides very significant foresights for the rule regulators working on the field of specific sector development (Esselaar, 2006). Product quality standards continue to increase regularly with the usage of IT. The computer supported designing models increase the performance of machines and products by using advanced simulation technics. It also decreases the levels of tolerance during production process through effectively set up feedback mechanisms (Iraz, R, 2008).

H2: There is a relationship between IT usage and firm performance.

In context of technology, the perception of technology is different individual to individual. According to Technology Admit Model (TAM) while individuals decide to accept or refuse the new technology, they focus on facility usage and effectiveness. A person's degree of belief on using the system easily or difficultly can be defined as a facility usage (Davis, F.D, 1986).

H3: There is a relationship between IT perception and firm performance.

Decision-making process is the most important role of a manager in organizations, because survival of organizations depend on the managers' decisions. For example, a manager can acquire the information which is necessary for production process by complex ERP system or simple software matrix programme (Tanoğlu and Basoğlu, 2005).

H4: There is a relationship between IT at decision process and firm performance.

A future orientation firm gives particular importance to the potential customers and competitors beside the current customers and competitors. Future orientation firm considers both the future market and its customers, competitors and current customers' needs (Chandy and Thelis, 1998).

H5: There is a relationship between future orientation and firm performance.

H6: There is a relationship between IT at decision process and future orientation.

H7: There is a relationship between IT investment level and future orientation.

H8: There is a relationship between IT perception and future orientation.

H9: There is a relationship between IT usage and future orientation.

Technology can be conceptualized as a subunit strategy of sources used by a firm on present and future innovation efforts. High firm performance depends on the technological proficiency of the firms. Unless a firm predicts and follows the technological developments and use these developments for the improvement of its own product and process, high firm performance may not come true (Freeman and Soote, 1997; Meesuus and Oerlemans).

H10: There is a relationship between technology orientation and firm performance.

H11: There is a relationship between IT at decision process and technology orientation.

H12: There is a relationship between IT investment level and technology orientation.

H13: There is a relationship between IT perception and technology orientation.

H14: There is a relationship between IT usage and technology orientation.

Firm Performance

There are several definitions of firm performance in the literature but the simplest definition is to measure productivity (Zehir, Yılmaz, Velioğlu, 2008). Performance is generally stated as a doing business, implementing successfully. Performance, the main criteria of measuring success, could be defined as quite a wide concept that evaluates the ability to achieve the organization's targets successfully (Akal; 1994).

Performance can be evaluated with qualitative criteria such as job satisfaction, organizational commitment, perception of justice and quantitative criteria such as profitability, investment return ratio, sales growth in the studies. In this study, quantitative criteria such as financial, market and innovation performances are used. Financial performance measure the organization's basic economical targets, and these targets are important for practitioners and researchers; therefore in the studies, financial performance is used commonly. Profitability, revenue, investments' return ratio are used commonly in the studies and they are called financial performance evaluation criteria.

In addition to financial performance, market performance is important, too. Market growth and sales growth are important for practitioners and researchers, too. Customer satisfaction and commitment, change in market share, communication with customers in advertising or sales are used commonly in the studies as market performance criteria. Because of the rapid change in the demands and needs of customers, the product life get shorter. To handle this problem, firms must make radical innovations (Hunt, Morgan, 1996).

So, practitioners and academicians began to study about innovation concept. They made field study and developed appropriate measure criteria. The innovation performance criteria are about the R&D rate in the firm's budget, the new products, the new projects, the quality of the new projects and new products.

In our research, with the guidelines of literature review and previous empirical research, a research model has been developed to predict effects of IT investment level, IT usage, IT perception and IT at decision making process and future orientation and technology orientation on firm performance. The research model is presented below:

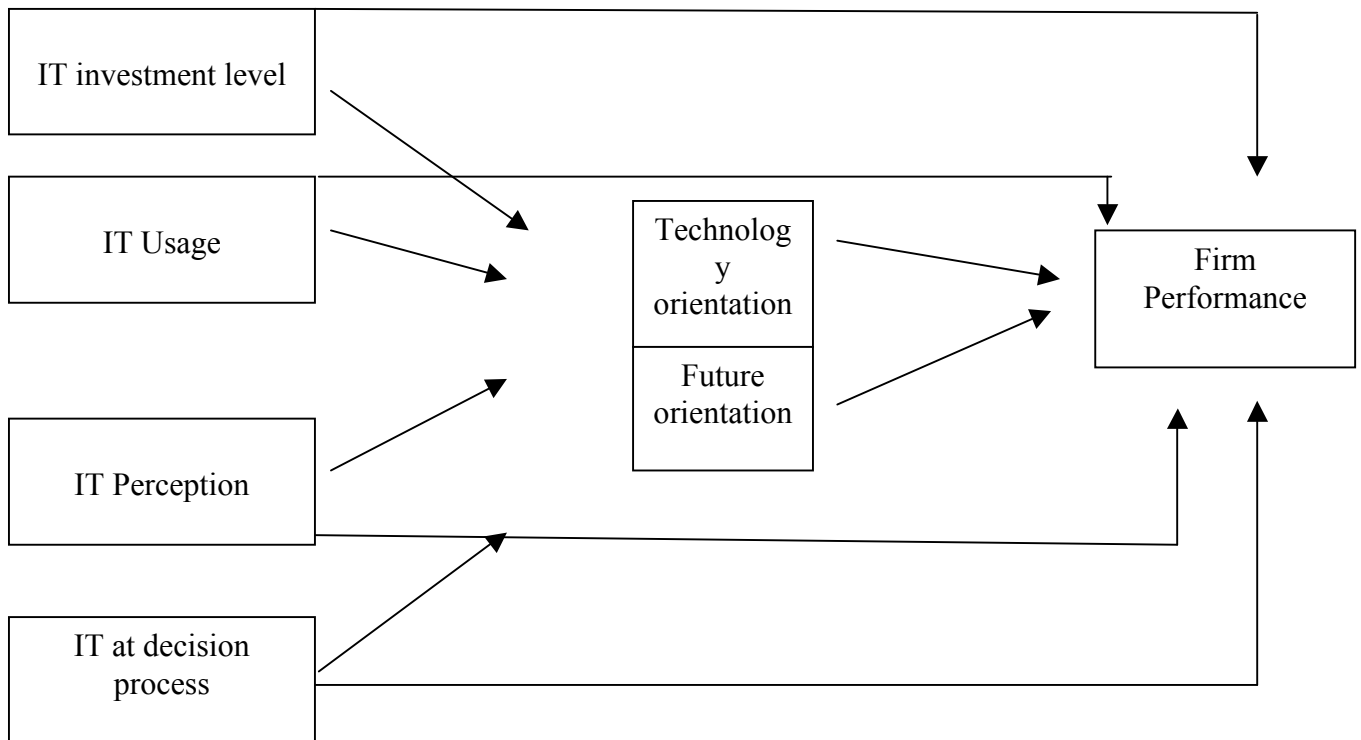


Figure 1: Research Model

METHODOLOGY AND RESULTS

Sample and Data Collection

In this study, we gathered data from a sample of different **National and Multinational Companies** in Turkey which traded on ISE (Istanbul Stock Exchange). Although firms' institution level in Turkey is lower than developed countries, the firms which traded on ISE are high. The main reason of choosing this sample is that, the institutional firms consider about IT investments at higher degrees.

Firstly, we phoned firms which traded on ISE and gave information about our research. Then, we sent the questionnaires to 158 firms which accepted answering by e-mail or mail, and 94 of them answered the questionnaires. After investigating the questionnaires; we narrowed our sample with 81 firms which really answered correctly and carefully. Ninety-two percent of the participants were young and middle-aged. Sixty-four percent of the participants were male. Sixty-one percent of the firms have 250 or above employer. We tested the data with the help of regression analysis and all items included in the questionnaire were measured on a 5-point Likert-type scale. The items that we used were mostly tested in previous research and were proven to be theoretically strong.

Measures

IT Investment Level: To assess actual IT investment level, we used Steve Esselar (2006) 6-item measurement.

IT Usage: To assess actual IT usage, we used Steve Esselar (2006) 6-item measurement.

IT Perception: To assess employees' perception of IT product service, we used İlda Tanoglu and Nuri Basoglu (2006) 7-item measurement.

IT at decision process: To assess employees' decision on the problems and utilize IT technology, we used İlda Tanoglu and Nuri Basoglu (2006) 7-item measurement. We searched for the level of firms' technology values and the level of firms' technology trend.

Technology orientation: We measured technology orientation with using the Barzack (1994) 7-item measure.

Future orientation: We measured future orientation by using the Barzack (1994) 3-item measure. We researched the level of future orientation and the level of future orientation behavior.

Firm Performance: To assess firm performance, we constructed measurement by combining Lumpkin&Dess (1996), Antoncic (2003), Zahra (1993), Alpkhan (2005).

Factor Analysis

We used SPSS software 16.00 for the evaluation of our data. Factor analysis, correlation, reliability tests, the means of the variable and regression analysis were used to analyze the relationship between variables of the research model.

Varimax rotational, exploratory factor analysis in SPSS software have been used to evaluate factor structure for the variables. We used the Cronbach's Alpha to estimate reliability for scales. These items and factor loadings are presented in Table 1 and Table 2.

KMO: ,855 Explained total variance: %72,243	IT at decision process(Cronbach α : 0,873)	IT level(Cronbach α : 0,702)	IT perception Cronbach α : 0,781)	IT usage (Cronbach α : 0,780)
Sharing information and communication by personal communication	,759			
Collecting data and information	,832			
Develop alternative solutions	,806			
Apply decisions	,610			
We have an informatic department in our firm.		,874		
We have high speed internet network in our firm.		,588		
The safety of internet security provided by software support		,646		
IT systems usage is easy in our firm			,787	
IT systems are clear in our firm			,848	
IT departmant can solve customers' and employers' needs and problems.				,845
E-mail is used for external and internal communication				,532
Software is updated regularly.				,518
The speed of internet is adjusted by customers' and employers' needs and demands.				,431

Table 1: Independent Variable Factor Loadings

KMO: ,897 Explained total variance: %67,656	Technology Orientation(Cronbach α : 0,824)	Future Orientation(Cronbach α : 0,866)	Firm Performance (Cronbach α : 0,945)
New product idea emerged from technology orientation.	0,638		
New products are composed of complex process and technologies.	0,870		
We used the advanced technology while composing new products.	0,652		
New product process is directed by technical staff.	0,713		
New technology can be integrated in our firm easily.	0,546		
Our firm focus future rather than today		0,767	
We give particular importance to researches and new products for gaining competitive advantage.		0,767	
We predict future market tendency.		0,672	
Sales profitability			0,819
Firm's market share growth			0,766
Profitability per customer			0,743
Create a known brand			0,747
Turnover Profitability			0,779
Investment Profitability.			0,736
Growth of Profitability			0,770
Return on Assets			0,830
Percentage of the new products			0,706
The number of new products and services			0,623
The number of the new products which get patent			0,622

Table 2: Dependent Variables Factor Analysis

Correlations between Variables of the Study

We calculated means and standard deviations for each variable and created a correlation matrix of all variables used in hypothesis testing. Means, standard deviations, reliabilities, and correlations among all scales used in the analyses are shown in Table 3. The means and standard deviations are within the expected ranges.

Correlation analysis is conducted to research the relationship between dependent variables (IT investment level, IT usage, IT perception and IT at making decision process) and independent variables (technology orientation, future orientation and firm performance).

According to correlation analysis; there is a medium relationship between dependent variable technology orientation and IT usage and IT at the making decision process ($p < 0,01$) and there is a weak relationship between technology orientation and IT investment level and IT perception. ($p < 0,01$). There is a medium relationship between dependent variable future orientation and IT usage, and IT at making decision process, IT investment level and IT perception ($p < 0,01$). There is a medium relationship between dependent variable firm performance and IT usage, IT at making decision process, IT perception and IT investment level and there is a strong relationship between technology orientation, future orientation and firm performance ($p < 0,01$).

According to correlation analysis, all hypotheses are supported.

	S.D	MEAN	1	2	3	4	5	6	7
1.Desc	0,6846	4,1820	(,873)						
2.ITlev	0,8002	4,2057	,469(**)	(,702)					
3.ITper	0,6192	4,0308	,613(**)	,302(**)	(,781)				
4.ITusa	0,6208	4,1975	,648(**)	,653(**)	,385(**)	(,780)			
5.Tc.or	0,6512	3,9629	,520(**)	,365(**)	,350(**)	,520(**)	(,824)		
6.Fut.or	0,7227	4,1810	,612(**)	,562(**)	,509(**)	,445(**)	,214(**)	(,860)	
7.Fperf	0,7792	3,8922	,463(**)	,644(**)	,499(**)	,459(**)	,238(**)	,523(**)	(,945)

** Correlation is significant at the 0.01 level

SD = Standard Deviation () Cronbach's alpha

Desc:IT at decision stage ITlev:IT investment level ITper: IT perception ITusa:IT usage Tc.or:Technology orientation Fut.or:Future orientation Fperf:Firm performance

Table 3: Mean, Standart Deviation and Correlation Coefficients

Test of the Hypotheses

The regression tables showed the effects of IT investment level, IT usage, IT at decision process and IT perception and future orientation and technology orientation on firm performance. The regression models examining the effects of IT investment level, IT usage, IT at decision stage and IT perception on future orientation. IT perception ($p < 0.1$; β : ,188), IT investment level ($p < 0.001$; β : ,316) IT at decision stage ($p < 0.001$; β : ,303) is statistically significant with future orientation, IT usage does not have a statistically significant effect on future orientation. So, H6, H7, H8 are supported and H9 is not supported. IT at decision stage is statistically significant effect on technology orientation ($p < 0.01$; β : ,376). So, while H11 is supported; H12, H13 and H14 are not supported. Future orientation is statistically positively significant with firm performance ($p < 0.01$; β : 405). So, H5 is supported. Technology orientation is not statistically significant with firm performance. So, H10 is not supported. IT usage (β : 236) and IT investment level (β : 347) is statistically positively significant with firm performance ($p < 0.01$). So, H1 and H2 are supported and H3 and H4 are not supported.

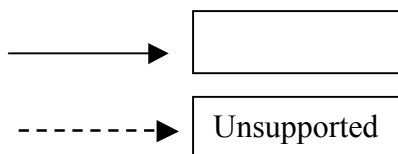
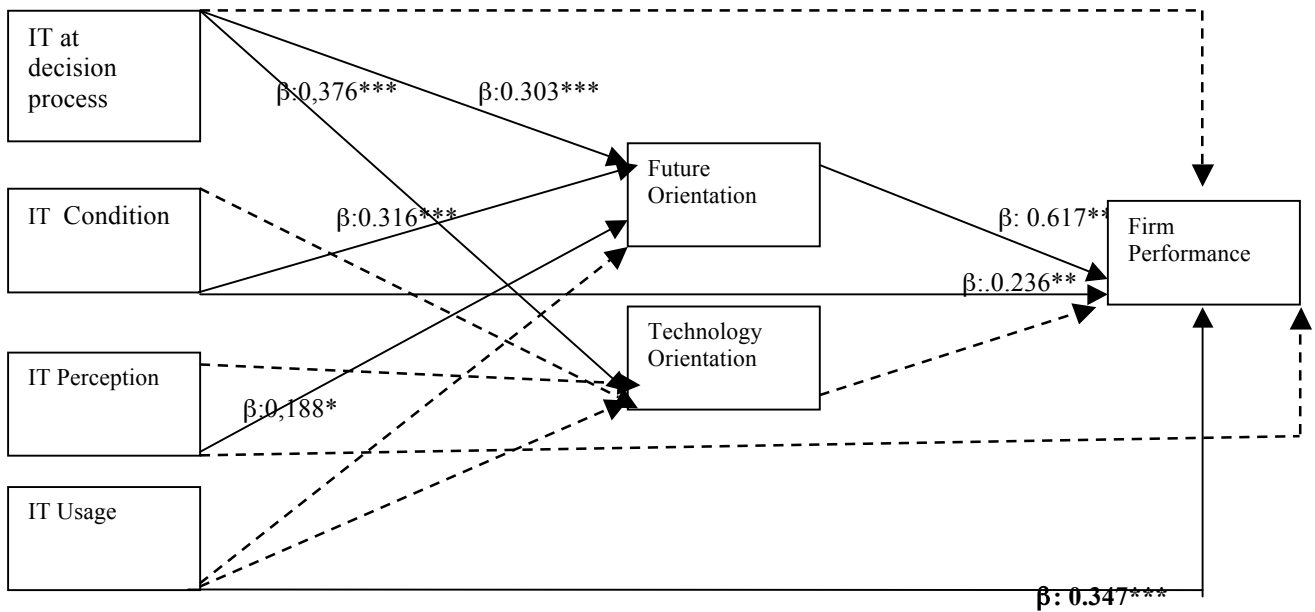
The mediating effects are investigated. The mediating effect of technology has dominated the IT usage and decreased the Beta value. Future orientation has shown intermediate variable effect and has dominated IT usage and IT investment level effect, so has caused the decrease of the Beta value.

	Dependent Variables		
Independent Variables	Future orientation	Technology orientation	Firm Performance
IT at decision process	,303**	,376***	-,164
IT investment level	,316***	,088	,236**
IT perception	,188*	,010	-,001
IT usage	,071	,149	,347***
Technology orientation			,085
Firm performance			,405***
	F:18,988 R ² : ,474	F:8,108 R ² : ,262	F: 20,713 R ² : ,627

*p<0.05; **p<0.01; ***p<0.001;

Table 4: Regression Analysis Results

REGRESSION MODEL



Conclusion and Future Research

These results should be important to managers and practitioners beside IT researchers; because IT investments have a vital role in today's organizations. If the firms manage the investments correctly and carefully, they can manage the market and they can be market leader. The investment costs are important for organizations. Hence, IT's role in the organizations and maximizing the benefits of IT are very important for performance and success of the organizations in the future.

In this study, IT investment level, IT usage, IT at decision process and its concepts and their effects on technology orientation, future orientation and firm performance were investigated and a research model was developed.

For analyzing data, SPSS software was used. Firstly, factor analysis was done and questions that did not go with any factor were eliminated. The reliability analysis was done and all variables were reliable. After the reliability analysis, correlation analysis was made and all hypotheses were supported according to correlation analysis. There is a medium relationship between dependent variables and independent variables in the hypotheses. In the literature, there is not certain strong relationship between IT investments and firm performance. If IT investments are managed successfully, it can help to increase the firm performance. The relationship between IT investments and firm performance has been investigated at different aspects in the literature such as type of investments, industry company size, type, company location. (Rotzocki N, Weistroffer H.R; 2009) And Dos Sontos, Kim and Morris found positive relationship between firm performance and IT investments. Our research also found a positive relationship between IT usage and IT investment level between firm performance.

When we take future orientation while examining the effects of dependent variables on intermediate variables, the effect of IT usage has dominated the other dependent variables; whereas when we take technology orientation, IT at decision process has dominated the effect of all dependent variables.

The research was done in Turkey- developing country - and the results show that future orientation on IT investments have significant positive effect on firm performance. This study could be done in a developed country such as United States and the results could be compared. The questionnaire has been implemented only on firms trading at ISE (Istanbul Stock Exchange) , but could be applied on wider circles at further studies, and firm performance could be evaluated over firms' balance-sheet value. Firm performance could be measured by adding qualitative or quantitative criteria. Performance could be evaluated by business process performance such as customer satisfaction, flexibility of process and information sharing.

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MEASUREMENT OF TRAVEL SUPPLIER'S WEBSITE QUALITY BY VIEW OF ITS INTERMEDIARIES' SALES AND OPERATION DIVISIONS

Can Deniz Köksal
Meltem Caber
Akdeniz University, Turkey

ABSTRACT

Extranet systems are one of the typical strategic networks of the multinational tour operators. In international travel industry, tour operators allow to use of their extranet systems online by the partner travel agencies in many inter-company processes. Staff who works in travel agencies at the intermediary-seller status, usually benefit from the web site interface of tour operators at the producer-supplier status for selling the products and services to the end-users. For this reason, the research model of this study had been generated according to the hypothesis which assumes that the quality of web site inter-face characteristics and customer services of a tour operator have direct effects on travel agency's personnel satisfaction and indirect effect on their trust towards tour operator. Besides, developing qualified web site accordance with wants and needs of users has been accepted as criteria of tour operator's concern and success at electronic customer relationship management. Herewith, the results of this study had been found contributory to understand the direct and indirect relationships among web site quality, customer services, user's satisfaction and trust concepts within inter-companies' e-CRM.

Keywords: *electronic commerce, website quality, structural equation modeling*

INTRODUCTION

The processes of benefiting from the structural advantages of the newly established information technologies in international trade relations have revealed a new understanding of the economy called as electronic commerce. In order to be existed in electronic commerce environment and to be able to respond to global competition, adaptation of businesses to technological developments has become a necessity. Tourism industry is located at the top of the industries which adapt themselves to the technological developments easily and rapidly. Therefore, tour operators as suppliers and travel agencies as intermediaries which constitute the traditional travel distribution system today, can be seen having the comprehensive information systems. These companies are followed a win-win strategy as well as by integrating their systems with each other and by sharing their customer data, too.

In this study, the tour operator's website evaluations by sales and operations staff of the travel agencies which work in cooperation with an international tour operator named "Tez Tour AS" in Bulgaria, Ukraine and Kazakhstan were examined. WebQualTM scale, tested through structural equation modeling, was reflected the most important functions in the perception of website quality of the system users. In this way, the quality measurement of website, which is one of the most important electronic commerce tools in the relationships of tour operators and travel agencies, has been made and the expectations of users from the system have been determined.

KNOWLEDGE- BASED THEORY IN STRATEGIC MANAGEMENT

Strategic management is defined as a process of assessing the corporation and its environment in order to meet the long-term objectives of the organization or the company (Alkhafaji, 2003). Strategic management enables managers to decide which tangible or intangible resources of the company can be enforced for obtaining performance improvement and competition advantage. Therefore, a fundamental question in strategy research is why companies differ in their performances (Dyer & Hatch, 2006).

Resource and knowledge-based theory in strategic management research argue that company-specific *knowledge* has the greatest potential to serve as a source of sustainable competitive advantage among the types of company-specific resources examined, and a company's knowledge base is the information inputs, know-how, and capabilities that organizational members draw on when searching for innovative solutions (Wang, He & Mahoney, 2009). Most of the intangible resources that a company can acquire or develop are

directly linked to its stakeholders. Knowledge acquisition and sharing as a part of innovation strategies enable companies to manage their interdependence with others, particularly in industries in which knowledge develops rapidly and sources of expertise are widely dispersed, like international travel industry (Soh, 2010). More recently, many scholars argue that a company's performance may be strongly influenced by its inter-company ties or its 'strategic networks' (Dyer & Hatch, 2006).

In international tourism and travel industry, travel agencies are the "mediaries" and "core stakeholders" of the tour operators who have strategic networks online with their suppliers (like extranet systems). In the related literature, strategic networks between travel agencies and tour operators in terms of strategic management have been widely ignored and very limited research can be obtained depending on the perspectives of researchers such as the importance of e-commerce for strategic management (Buhalis, 2003); the role of internet in travel distribution (Thompson, 2001); global alliances in the tourism industry (Crotts et al., 2000) and e-mediaries-competitive advantage relationships (Dale, 2003). In this study, authors aimed to contribute to the existing literature by examining a multinational tour operator's quality of extranet system and effectiveness of its features in the eye of system users for understanding the role of such systems in the content of strategic management.

THE ROLE OF EXTRANET SYSTEMS IN TRAVEL INDUSTRY

Extranet systems are one of the typical strategic networks of the multinational tour operators. In international travel industry, tour operators allow to use of their extranet systems online by the (partner) travel agencies in many inter-company processes (such as sales, marketing, contracting etc.) so that they can benefit both from the expertise of these agencies staff and to gain some performance advantages by time or cost efficiencies. On the other hand, travel agencies began to prefer to establish long-term partnerships with the proficient global tour operators that are also technologically advanced. In the perspective of strategic management, if knowledge resources of the both sides are shared mutually and spread into these extranet systems, it is going to be seen obviously that the system users begin to accomplish their duties much more easily and a great performance improvement in each operational process can be maintained.

B-TO-B ELECTRONIC COMMERCE IN TRAVEL INDUSTRY

Concept of electronic commerce which is firstly used by Kalkota and Whinston (1996) has been described as a tool to share business information, to provide commercial relations and to perform commercial changes via telecommunication networks (Tassabehji, 2003). Electronic commerce, as the scope of itself; uses telephone, fax, automated teller machines-ATM, electronic funds transfer-EFT and electronic data interchange-EDI systems (Henderson et al., 2003). However, instead of accepting electronic commerce as a particular application or a combination of several applications, it will be a more accurate approach to review it by taking into consideration with its support to the parties or businesses in their business process integration (Carter, 2002). Economic potential of information technology tools has the effect on all activities of the businesses, such as knowledge processing and communication strategies, etc. In information technology, application tools based on the ideas are created (Cohen et al, 2001). This basic set of tools provides many new opportunities from basic infrastructural constructions of enterprises to the scope of inter-industry activities.

Tourism industry has become one of the most active areas in which the internet network is used and the 33-50% of the operations of internet is carried out for the tourism associated issues (Werthner & Klein, 1999). In 2000, 7.3% of world's total travel reservations' is done online, and it is estimated that this figure increased to 16.3% in 2003. Therefore, in terms of tourism and travel industry, the importance of electronic commerce opportunities and commercial partnerships has become undeniable. Especially by the help of electronic commerce applications from customer to business and from business-to-business, industrial osmosis has gained a great impetus. In B-to-B electronic commerce environment since 1970s, special value added networks called information office systems (IOS) which put into businesses with customers and/or suppliers have been used (Archer & Yuan, 2000). Despite responsibility transfers in some cases, basic business-to-business commerce does not change the communication infrastructure between the business partners in trade channels. With the performance increase achieved with collaborative commerce, it is possible to develop all relational communication channels between businesses (Lee et al., 2003). At this stage, it will be in place to touch upon the concepts and their differences of e-business partnership and e-collaboration. E-business partnership is related to the organizational performance improvement provided by internet, ease of data transfer provided by e-commerce and ease of information sharing between e-partners. E-collaboration

contains more comprehensive structure than e-business partnerships. This concept is more concerned for supplier-vendor relationships (Zhao, 2005). The richness of digital platforms in which E-business partnership is realized, has led to significant different in the dynamic exchanges between business partners (Jarach, 2002).

WEBSITE QUALITY AND WEBQUAL™ SCALE

Website analysis, design, modeling and measurement have attracted the attention of many researchers. In general, to design a web site, is much more difficult than designing a usual kind of information system (Lowe & Henderson-Sellers, 2001). Subject of web site of modeling were examined with different purposes such as data structures and modeling, data relationships and hypermedia designs (Yen et al., 2007). Chaang- Iuan Ho (2007) pointed out to this situation in his studies and advised a four itemed e-travel service quality scale for the travel agents that operate in electronic commerce environment. The four dimensions of this scale were identified as: information quality, security, website functionality, customer relations and ability to answering. On the other hand, WebQual™ scale developed by Loiacono (2000) represents the web site users' quality perception of the systems in travel agencies sales and operations sections via extranet through their tour operator. This scale represents 5 primary (usefulness, entertainment, ease of use, response time, trust) and 12 secondary factors (information fit-to-task, tailored communication, online completeness, relative advantage, visual appeal, innovativeness, emotional appeal, consistent image, ease of understanding, intuitive operations, response time, trust) in order to discover the web site quality (Wolfinbarger & Gilly, 2003).

RESEARCH DESIGN

In the research phase of the study, authors collaborated with a multinational tour operator “Tez Tour AS.”, which was at the top in the First Major 500 Turkish Tourism Companies Index- 2008. The Quality Manager of the company has contacted with partner travel agencies in Bulgaria (92), Ukraine (80) and Kazakhstan (70) and sent to the questionnaires to the e-mail addresses of the sales staff in each agency. Data was collected by an online survey between October and December in 2009. It was determined that the average number of sales personnel per agency was approximately 2, and therefore the size of research space was calculated as 484. The useable number of the fully completed questionnaires was 336 (from Bulgaria 127; Ukraine 101 and Kazakhstan 108). The rate of response was quite sufficient (69 %) for an online questionnaire technique.

In the questionnaire, participants are firstly asked to answer some demographics and afterwards WebQual™ scale in 5 point type of Likert (1= totally disagree, 5= totally agree) and conceptual model was tested by structural equation modeling. Majority of the participants had university level of education (76.5 %); were between 26-33 years old (36.9 %) and using computer more than 5 years (92.6 %) and e-commerce programmes more than 3 years (66.7 %).

DATA ANALYSIS AND RESULTS

For testing the validity of the scale, confirmatory factor analysis was performed and at the first stage, below written factor loadings and goodness-of-fit indices have been obtained (Table I). As the X^2 value was 4090.92; degree of freedom (df) 594; RMSEA 0.133; AGFI 0.55; RMR 0.11 and SRMR 0.095, the first analysis results could not meet to the goodness-of-fit criterions.

When the items with factor loadings below than 0.45 and insignificant t-values has been eliminated (such as web19, web28, web33, web32 and rest item in one sub-dimension; web31), goodness-of-fit indices have improved and found acceptable. At the second run of Factor Analysis, RMSEA was found as 0.064; X^2 value and degree of freedom (df) values were found as 891.21 and 379, respectively (Table II).

According to the results given at Table-II, “The 11 First-order Model” is structured and is shown as at Figure 1. The “RESPONSE TIME” dimension with its 3 sub-dimensions was totally eliminated from the conceptual model and the rest of the study was conducted with 11 sub-dimensions named as “11 First-order Model WebQual™”.

Table I: Confirmatory Factor Analysis of WebQual™

Item Code	Dimensions	Sub-dimensions	Factor Loading	t Value	Error Covariance
web1	USEFULNESS	Informational fit-to-task	0.76	15.32	0.42
web2	USEFULNESS	Informational fit-to-task	0.81	16.51	0.35
web3	USEFULNESS	Informational fit-to-task	0.66	12.54	0.57
web4	USEFULNESS	Tailored communication	0.68	13.09	0.54
web5	USEFULNESS	Tailored communication	0.71	13.70	0.50
web6	USEFULNESS	Tailored communication	0.64	12.14	0.59
web7	USEFULNESS	Online completeness	0.68	12.80	0.54
web8	USEFULNESS	Online completeness	0.67	12.68	0.55
web9	USEFULNESS	Online completeness	0.58	10.60	0.67
web10	USEFULNESS	Relative advantage	0.86	18.15	0.26
web11	USEFULNESS	Relative advantage	0.71	14.06	0.49
web12	USEFULNESS	Relative advantage	0.80	16.49	0.36
web13	ENTERTAINMENT	Visual appeal	0.86	19.06	0.27
web14	ENTERTAINMENT	Visual appeal	0.92	21.36	0.16
web15	ENTERTAINMENT	Visual appeal	0.77	16.30	0.41
web16	ENTERTAINMENT	Innovativeness	0.91	20.86	0.18
web17	ENTERTAINMENT	Innovativeness	0.95	22.70	0.09
web18	ENTERTAINMENT	Innovativeness	0.59	11.54	0.65
web19	ENTERTAINMENT	Emotional appeal	0.13	(eliminated)	0.98
web20	ENTERTAINMENT	Emotional appeal	0.73	13.58	0.47
web21	ENTERTAINMENT	Emotional appeal	0.61	11.22	0.63
web22	ENTERTAINMENT	Consistent image	0.83	18.06	0.30
web23	ENTERTAINMENT	Consistent image	0.89	19.83	0.21
web24	ENTERTAINMENT	Consistent image	0.75	15.62	0.43
web25	EASE OF USE	Ease of understanding	0.83	17.74	0.30
web26	EASE OF USE	Ease of understanding	0.80	16.68	0.36
web27	EASE OF USE	Ease of understanding	0.76	15.46	0.43
web28	EASE OF USE	Intuitive operations	0.29	(eliminated)	0.92
web29	EASE OF USE	Intuitive operations	0.90	17.39	0.19
web30	EASE OF USE	Intuitive operations	0.66	12.34	0.57
web31	RESPONSE TIME	Response time	0.86	(eliminated)	0.26
web32	RESPONSE TIME	Response time	0.20	(eliminated)	0.90
web33 (R)	RESPONSE TIME	Response time	0.23	(eliminated)	0.95
web34	TRUST	Trust	0.53	9.91	0.72
web35	TRUST	Trust	0.88	18.17	0.23
web36	TRUST	Trust	0.87	17.94	0.25

Table II: Goodness-of-fit Indices (Confirmatory Factor Analysis)

Indices	Result	Cut-off Value
Degrees of Freedom (df)	379	
χ^2	891.21	
χ^2/df	2.35	≤ 5.00
Goodness of Fit Index (GFI)	0.85	≥ 0.80
Adjusted Goodness of Fit Index (AGFI)	0.81	≥ 0.80
Comparative Fit Index (CFI)	0.98	≥ 0.90
Non-Normed Fit Index (NNFI)	0.97	≥ 0.90
Root Mean Square Error of Approximation (RMSEA)	0.064	≤ 0.10
Standardized RMR (SRMR)	0.060	≤ 0.10

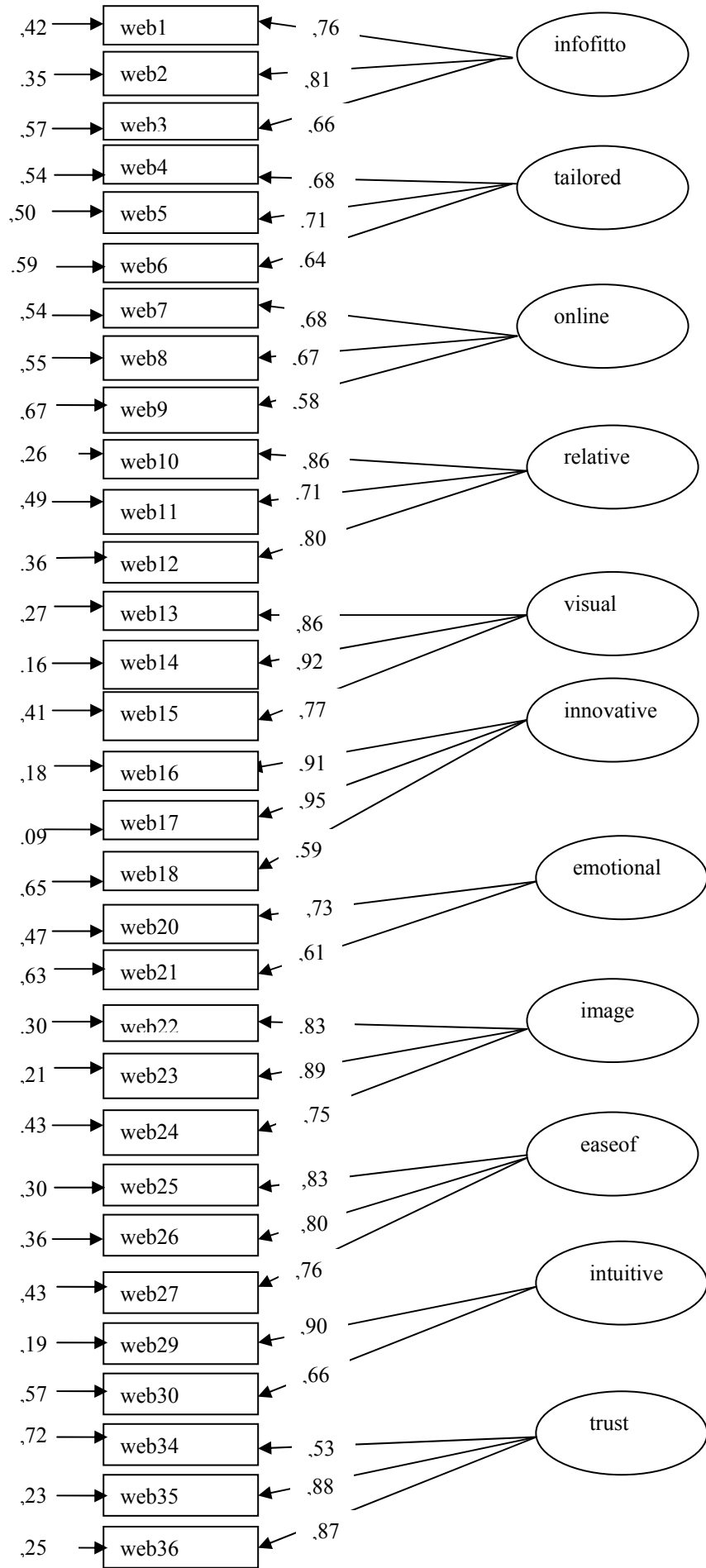


Figure 1: 11 First-order Model (WebQual™)

Correlation matrix between the sub-dimensions of WebQual™ is shown at Table III. The highest correlation was found between online completeness and tailored communication (0.90) dimensions.

Table III: Correlation Matrix between Sub-dimensions

	1	2	3	4	5	6	7	8	9	10	11
1. infofitto	1										
2. tailored	0.82	1									
3. online	0.70	0.90	1								
4. relative	0.31	0.39	0.62	1							
5. visual	0.50	0.53	0.51	0.45	1						
6. innovative	0.39	0.56	0.56	0.40	0.67	1					
7. emotional	0.67	0.77	0.73	0.57	0.82	0.70	1				
8. image	0.51	0.58	0.61	0.48	0.70	0.65	0.79	1			
9. ease of	0.59	0.55	0.60	0.38	0.73	0.52	0.75	0.56	1		
10. intuitive	0.54	0.55	0.58	0.52	0.58	0.47	0.80	0.50	0.68	1	
11. trust	0.48	0.50	0.51	0.20	0.35	0.36	0.59	0.41	0.42	0.42	1

According to sub-dimensions, items and their standardized factor loadings, variance extracted as well as construct reliabilities were presented at Table IV.

Table IV: Construct Reliability and Variance Extracted

Sub-dimensions	Item codes	Standard Factor Loadings	Variance Extracted	Reliability
infofitto	web1	0.76	0.556	0.789
infofitto	web2	0.81		
infofitto	web3	0.66		
tailored	web4	0.68	0.459	0.717
tailored	web5	0.71		
tailored	web6	0.64		
online	web7	0.68	0.416	0.680
online	web8	0.67		
online	web9	0.58		
relative	web10	0.86	0.628	0.834
relative	web11	0.71		
relative	web12	0.80		
visual	web13	0.86	0.726	0.888
visual	web14	0.92		
visual	web15	0.77		
innovative	web16	0.91	0.693	0.867
innovative	web17	0.95		
innovative	web18	0.59		
emotional	web20	0.73	0.453	0.621
emotional	web21	0.61		
image	web22	0.83	0.681	0.864
image	web23	0.89		
image	web24	0.75		
easeof	web25	0.83	0.636	0.839
easeof	web26	0.80		
easeof	web27	0.76		
intuitive	web29	0.90	0.623	0.763
intuitive	web30	0.66		
trust	web34	0.53	0.604	0.814
trust	web35	0.88		
trust	web36	0.87		

The discriminated validity of scale was also measured and analyses showed that all the unlimited model X^2 values were higher than limited model X^2 values. Accordingly, limited model X^2 values made out of unlimited model X^2 values and presented at Table V. Thus, the convergent validity of the scale has been supported too.

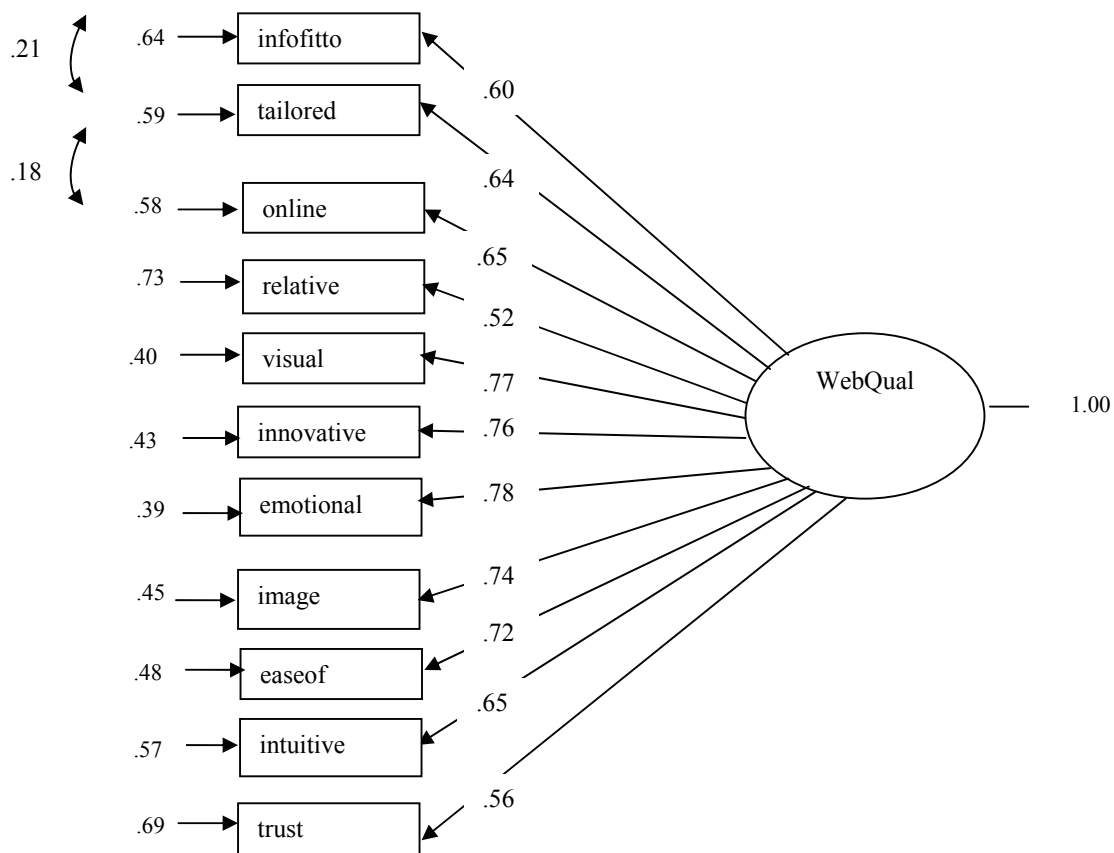


Figure 2: Single First-order Factor Model (WebQual™)

Table V: Goodness-of-fit Indices

Indices	Result	Cut-off Value
Degrees of Freedom (df)	42	
X^2	164.75	
X^2/df	3.92	≤ 5.00
Goodness of Fit Index (GFI)	0.92	≥ 0.80
Adjusted Goodness of Fit Index (AGFI)	0.87	≥ 0.80
Comparative Fit Index (CFI)	0.97	≥ 0.90
Non-Normed Fit Index (NNFI)	0.96	≥ 0.90
Root Mean Square Error of Approximation (RMSEA)	0.093	≤ 0.10
Standardized RMR (SRMR)	0.049	≤ 0.10

The single first-order factor model for WebQual™ shows that some features (or sub-dimensions) of the extranet system have more influence than others on the overall quality evaluations of the users. This research results point out that the 11 sub-dimensions of the WebQual™ and the scale itself can be accepted as an indicator of the website quality of the tour operator, and the most important features of the extranet system in the eye of users can be identified in terms of strategic management efforts.

At the last phase of the research, statistical differences among the participants according to their genders and nationalities have been analyzed. The results indicated that the system users in Kazakhstan have more positive perceptions about the system than other countries. In general, female users are more satisfied (means

3.96) with the system features than males (means 3.84). Female users are happier for using the system, for finding the effective information and for getting the confirmation of their transactions on time.

FINDINGS AND CONCLUSION

In this research, a multinational tour operator's extranet system which is one of the most vital communication and network element between the operators and their partner agencies investigated in the content of strategic management. Research results supported to the dimensionality of the WebQual™ scale, however instead of 12 sub-dimensions, in this study, 11 sub-dimensions have been obtained while "response time" dimension was found insignificant according to confirmatory factor analysis. In the future studies, researchers can analyze and compare to the divisional or functional performances among various companies and countries in other industries.

As a result, it can be said that extensive work processes, expertise necessities and high-tech infrastructure made it much more difficult for the companies in travel industry to maintain long-term partnerships and to response global competition in the last five decades. Therefore, if the system supplier knows the most important and vital features for its partner companies and system users; considerable amount of performance increases may be achieved in the long term.

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APPENDIX:

Items of the WebQual™ Survey

(Five point scale, 1= strongly disagree and 5= strongly agree)

Informational Fit-to-Task (infofitto)

- The information on the Web site is pretty much what I need to carry out my tasks.
- The Web site adequately meets my information needs.
- The information on the Web site is effective.

Tailored Communication (tailored)

- The Web site allows me to interact with it to receive tailored information.
- The Web site has interactive features, which help me accomplish my task.
- I can interact with the Web site in order to get information tailored to my specific needs.

Trust (trust)

- I feel safe in my transactions with the Web site.
- I trust the Web site to keep my personal information safe.
- I trust the Web site administrators will not misuse my personal information.

Response Time (response)

- When I use the Web site there is very little waiting time between my actions and the Web site's response.
- The Web site loads quickly.
- The Web site takes long to load.

Ease of Understanding (easeof)

- The display pages within the Web site are easy to read.
- The text on the Web site is easy to read.
- The Web site labels are easy to understand.

Intuitiveness (innovative)

- Learning to operate the Web site is easy for me.
- It would be easy for me to become skillful at using the Web site.
- I find the Web site easy to use.

Visual Appeal (visual)

- The Web site is visually pleasing.
- The Web site displays visually pleasing design.
- The Web site is visually appealing.

Innovativeness (innovative)

- The Web site is innovative.
- The Web site design is innovative.
- The Web site is creative.

Emotional Appeal (emotional)

- I feel happy when I use the Web site.
- I feel cheerful when I use the Web site.
- I feel sociable when I use the Web site.

Consistent Image (image)

- The Web site projects an image consistent with the company's image.
- The Web site fits with my image of the company.
- The Web site's image matches that of the company.

On-Line Completeness (online)

- The Web site allows transactions online.

- All my business with the company can be completed via the Web site.
- Most all business processes can be completed via the Web site.

Relative Advantage (relative)

- It is easier to use the Web site to complete my business with the company than it is to telephone, fax, or mail a representative.
- The Web site is easier to use then calling an organizational representative agent on the phone.
- The Web site is an alternative to calling customer service or sales.

WORKPLACE INTERNET LEISURE BROWSING

Brent Coker
University of Melbourne, Australia

ABSTRACT

This study finds evidence showing that employees who use the Internet for non-work related tasks during work hours are more productive than employees who do not. We speculated that Workplace Internet Leisure Browsing (WILB) is an unobtrusive interruption which enables a restoration of mental capacity, and fosters feelings of autonomy that lead to happier workers. Freedom to surf as opposed to blocking internet access is thought to evoke motivations to perform through self-determination. The findings of this research have implications for internet monitoring policies in organizations.

Keywords: workplace internet leisure browsing, WILB, internet addiction.

INTRODUCTION

There is a common belief amongst employers that workers who use the internet for personal reasons during work hours are ‘goofing off’. It is not uncommon for workers to be punished or even fired for personal web usage at work. Young and Case (2004) found 34% of fifty-two companies surveyed had disciplined or fired employees for workplace internet leisure browsing (WILB). More strikingly, a study by Greenfield and Davis (2002) found that more than 60% of companies had disciplined—and over 30% had terminated—employees for WILB. But what is the basis for this belief that personal web usage during work hours is necessarily bad? Can it be argued that moderate bursts of personal web browsing during work hours are actually beneficial to a worker’s performance?

It is intuitive to believe that too much WILB will negatively affect productivity by eating into time that would otherwise be used to complete organization set tasks. However, in the present research we argue that moderate WILB is not necessarily bad, and for reasons elaborated below may be positively correlated with employee productivity. Our prediction is supported by prior literature that has made similar predictions. Seymour and Nadasen (2007) noted that higher levels of internet access in the workplace were correlated with perceptions of information literacy and information access. Lim et al. (2002) found that almost half of those surveyed believed their usage was justified in some way. Oravec (2002) argued that “Allowing for reasonable and humane amounts of online recreation [during work hours] can indeed have considerable advantages, both for the individuals involved and the organization as a whole” (p. 63). Anandarajan et al. (2006) argued that those who held a positive attitude towards personal web usage in the workplace “deserves to be given positive encouragement for appropriate and beneficial usage than total restriction of usage.” (p. 332). In their book, Anandarajan and Simmers (2003) argued that WILB may aid employees in achieving a balance between work and personal life, with added benefits including better time management, a way to reduce stress, and a method of informal learning.

The positions of these authors are consistent with more general theories of motivation which lend support to the prediction that WILB might have a positive effect on worker performance. Deci and Ryan’s (2004) self-determination theory proposes that a degree of autonomy in the workplace should have a positive effect on worker motivation, suggesting attempts at restricting or monitoring internet access may have a deleterious effect on work motivation. Research lending support to this assumption has found that greater autonomy in the workplace leads to greater job satisfaction (Baard et al. 2006), more loyalty (Deci et al. 1989), and higher quality of work performance (Breugh 1985). An alternative stream of research suggests that little unobtrusive breaks during the workday, such as may be obtained from bursts of WILB, may also have a positive effect on worker productivity, including task performance (Zijlstra et al. 1999), ability to make effective decisions (Speier et al. 1999), and as an important variable in ability to control stress (Uleman and Bargh 1989).

In this article we concur with the views of Oravec (2002) Anandarajan et al. (2003; 2006), and argue that WILB can have a positive effect on worker productivity. We define worker productivity as the degree to which an individual performs in the workplace with respect to attendance, quality of work, performance

capacity, and person factors. Framed in self determination theory, and drawing from studies that have examined the effects of interruptions and breaks on task performance in the workplace, we predict that an important byproduct of WILB behavior for those who are not obsessive-compulsive in their internet surfing behavior is an increase in motivation and net concentration over the work day, which ultimately has a positive effect on productivity.

The remainder of this article is set out as follows. In the next section we provide theoretical reasoning for our hypotheses. We then describe and present the results of survey data collected from 259 randomly selected office workers to test our predictions. Finally, we offer a discussion of our findings, limitations, and areas for future research to further understand this phenomenon.

THEORETICAL BACKGROUND

Research suggests that blocking or controlling internet access in the workplace is viewed by many employees as a restraint impinging on their sense of control. Specifically, several studies have reported that although participants were aware that WILBing was wrong, they did not agree that it was devious behavior. For example, Lim et al (2002) found in a survey of 188 working adults that the majority felt WILB was acceptable, despite experiencing feelings of guilt. Similarly, Anandarajan et al. (2006) categorized one group of respondents who viewed WILB as a way to improve performance, and another group who believed that WILB was necessary to balance working and living. Lee et al. (2007) suggested employees who WILBed felt justified doing so because they could not understand any harm was actually being done. Lim and Teo (2005) suggested one way employees rationalize their WILB behavior is by justifying personal time spent on the internet at work against time spent doing work related tasks while at home. Lee et al. (2007) also described a “Robin Hood” effect where employees differentiated harm done against the organization from WILBing against the positive micro-effects of WILB such as relationship building with work colleagues. Thus, not only did many participants feel that WILB was not harmful or immoral, many felt it was in some way beneficial to their ability to perform their job.

The incongruence between employers and employees views on the acceptance of WILB creates a conflict of interest in the workplace. While workers believe they should be allowed to WILB, management believes they should not be allowed. Efforts by employers to control employees misuse of the internet in these conditions results in resentment and feelings of being over-controlled. Having a sense of being in control is necessary for an individual to feel they have autonomy in their actions. According to self determination theory (SDT), people have a psychological need to feel that their activities are self-chosen and self-endorsed. They also have a need to feel competent and effective in their activities, and have a sense of relatedness or a feeling of having mutual respect and reliance with others (Deci and Ryan 2004).

SDT makes a distinction between autonomous motivation, and controlled motivation. Autonomous motivation occurs when one has an interest in performing an activity. Controlled motivation is evoked from external stimuli such as coercion or seduction. Of particular importance is autonomy, which has been found in prior empirical studies to be one of the strongest needs associated with high-positive and low-negative emotion. Interestingly, in a study of 10 psychological needs, Sheldon et al. (2001) found that only autonomy was negatively associated with affect. In two experiments, Sheldon and colleagues produced evidence suggesting that when people are asked to recollect deeply satisfying experiences, they recalled experiences in which they felt strongly autonomous, competent, or related to others.

Studies have found that support for autonomy by management has a positive effect on work outcomes. For example, Deci et al. (1989) found that autonomy given to employees to carry out tasks under their own volition in the workplace, and encouraging initiative rather than control, led to greater job satisfaction and loyalty. Baard et al. (2006) found support for their hypothesis that employees given more autonomy would find their employers more supportive and experience greater job satisfaction. Breugh (1985) reported a positive relationship between feelings of autonomy in the workplace and quality of work performance. Further research has found that when people feel they have more control over their actions, they are more creative (Koestner et al. 1984), and experience a strong positive outlook on the clarity of their work and perception of overall total life satisfaction (Haworth 1997).

From the other perspective, feelings of not being in control can have detrimental effect on motivations to engage in activities. For example, an early study involving pre-school children by Lepper and Greene (1975) found that those who were told they were under surveillance during an activity expressed less subsequent interest in performing the behavior again than those who were not monitored. In the medical literature feelings of not being in control have also been found to be associated with health problems (Wallerstein 1992). As a serious consequence, Marmot et al. (2000) reported an association between feelings

of not being in control and having no freedom over one's actions in the workplace with higher incidences of coronary heart disease.

These studies provide strong evidence in support of the benefits of providing autonomy to employees in the workplace. Given that many employees believe that WILB should be acceptable behavior, attempts at blocking or over-controlling internet access in the workplace could be detrimental to feelings of autonomy, eroding job satisfaction, loyalty, and motives to perform.

Another potential reason why WILB might be beneficial to employee performance is that it provides a way for employees to have a short unobtrusive break which enables concentration to restore. Not all breaks, intrusions, distractions, or discrepancies in the workplace have necessarily negative effects on the person being interrupted. For example, an interruption by a co-worker presents the possibility of experiencing feedback and information that would not have been learned otherwise (Jett and George 2003). Csikszentmihalyi (1975) noted that leisure activities were essential for emotional wellbeing and creative output. Csikszentmihalyi and Fevre (1989) argued that breaks at work enable employees to subconsciously reflect on ideas and project task elements, and found that this type of thoughtful reflection occurred more often in the workplace than during periods outside of the workplace. Uleman and Bargh (1989) argued for the physical benefits of breaks, suggesting that unintended thought occurred as a subconscious process during idle time, and that it was important to an individual's ability to control stress.

Anecdotally, the positive benefits of breaks on concentration are well known. If we do not have regular breaks when driving long distances we risk having a car accident, and if we do not give our students a break during a three hour lecture they will struggle to learn in the last two hours. In the workplace, empirical evidence suggests that breaks can have a positive effect on productivity. Zijlstra et al. (1999) found that experimentally manipulated interruptions in a simulated work environment resulted in tasks being completed quicker, and finished to the same quality as the control group who were not given breaks. They proposed this was because the interruptions caused the participants to overcompensate for perceived performance lost. Thus, the participants appeared to be conscious that the interruptions were in some way having a negative impact on their ability to perform their job, and therefore expended more effort and assiduousness in between each interruption than if there were no interruptions. Their result is consistent with an experiment conducted by Speier et al. (1999), who found support for their prediction that the decision performance of those exposed to interruptions would be higher than the control group with no interruptions. They predicted that an interruption would elevate stress, resulting in the decision maker completing the task faster while filtering irrelevant information (see also Baron 1986).

Framework

Based on the review of existing theory in the preceding section, it is not unreasonable to believe that WILB might enable a restoration of concentration during a workday, which once restored has a positive effect on subsequent task performance. Moderate amounts of WILB may be construed as an enjoyable volitional activity, much like visiting a café for a coffee with friends after work, or taking a walk, though less effortful requiring just a few clicks of the mouse. The preceding discussion on the effects of control in the workplace further suggest that freedom to surf at work fosters a sense of autonomy, which research suggests may have a positive effect on workplace loyalty, and willingness to perform. In light of this reasoning, we offer the following hypothesis.

H₁. Those who WILB will have higher workplace productivity than those who do not, or cannot, WILB

If we make this prediction, the question of frequency and duration of WILB arises. As pointed out at the beginning of this article, common sense suggests that there must be a point where too much WILB would simply eat into time that would otherwise be spent on organizationally set tasks. Assuming a positive relationship between WILB and productivity, it is logical that the relationship will be an inverted u, with WILB eventually having a negative impact on productivity after a certain period of time. Formally:

H₂. The relationship between WILB and productivity will be curvilinear such that WILB will eventually have a negative effect on productivity

Past research has found that the frequency of breaks may have a positive impact on net productivity. Specifically, research suggests short breaks are more optimal at increasing worker productivity than a few longer breaks. For example, Doerr (1986) found that those who were given more idle time on a production line (working under a pull policy) had higher productivity than those with less idle time working under a

push policy. It was concluded that more idle time enabled the workers to have “mini-breaks”, which allowed workers to maintain an overall higher level of effort. In a comparison of massed practice and spaced practice, Kanfer (1994) found that participants with a task goal with frequent breaks had higher task performance than those in a massed practice condition with no breaks. In a similar finding, Henning et al. (1997) found that short breaks were beneficial to productivity when integrated with task demands.

Collectively, the results of these studies suggest that that short breaks spaced during the workday will have a more positive effect on employee productivity than one or two relatively longer breaks. Put in the perspective of WILBing, this suggests that short episodes of WILB throughout the day should be expected to have greater effect on net workplace productivity than one or few episodes. Assuming hypothesis one, we further predict:

H₃. While controlling for duration and overall amount of time spent WILBing, frequency of WILB breaks should have a positive effect on worker performance.

Lastly, we believe moderate WILB behavior will positively affect productivity despite income, age, education, type of industry, organization size, or gender.

These hypotheses are illustrated in the following diagram (figure 1).

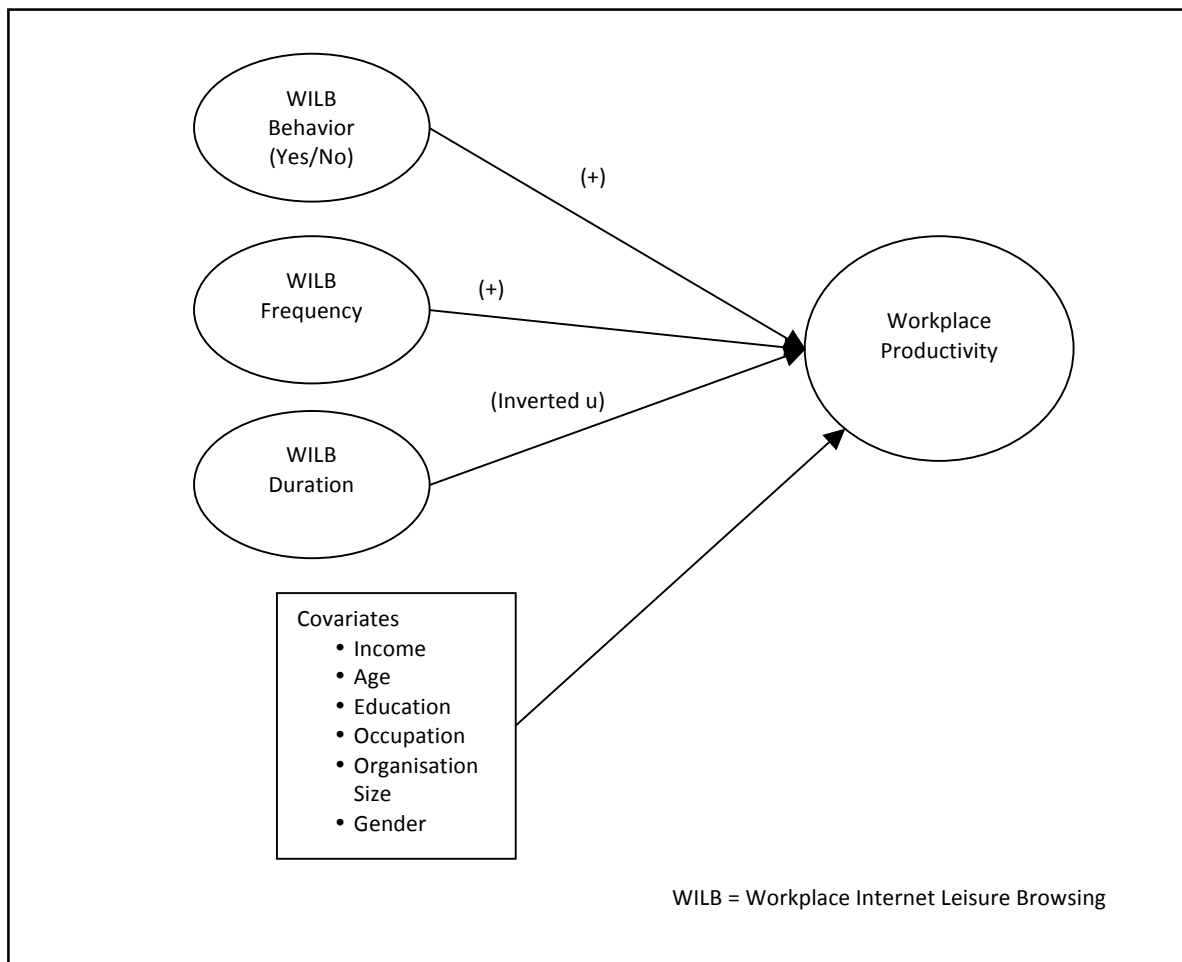


Figure 1: WILB Framework

PARTICIPANTS, DESIGN AND PROCEDURE

Data were collected using an online survey. Two-thousand and seven-hundred office workers were randomly selected from a commercial database of market research panelists. An email with a unique key and link to the survey was sent to each panelist. On clicking the link, each panelist was directed to a page which listed the instructions of the survey. The first page of the survey after the instructions page asked two dichotomous questions of whether the panelist worked behind a computer at work, and was currently employed. In total, 268 surveys were completed, of which 74% were female, and the average age was 33 years old, with 40% holding a university degree or higher in education. Twenty-three percent were a manager or administrator,

23% were a professional, 26% were clerical, sales, or service worker. The remainder (28%) indicated they were in another type of profession not listed. Average income was between 40-50k (the national average is 49k).

Independent Variables

WILB was calculated as a percentage of work time using the Internet for personal reasons while at work. A preliminary study was conducted to determine what types of WILB activities were conducted in the workplace. A random selection of participants from a commercial market research database were contacted by email to answer open ended questions about the incidences of personal and collegial WILBing they had experienced or witnessed in the workplace. Responses were recorded into a database from a web survey. Existing information on the panelists made it possible to exclude certain occupational groups unlikely to use a computer at work. Only those who were a manager or administrator, professional (e.g., scientist, doctor, lawyer), or clerical, sales, or service worker were contacted. Coding of the responses suggested 17 types of WILB activities (Table 1).

Table 1 Workplace Internet Leisure Browsing activities experienced in during work hours

Workplace Internet Leisure Activity

1. Reading online news websites
 2. Checking online sports results
 3. Checking lottery results
 4. Reading non-work blogs (including Twitter/Facebook)
 5. Writing personal blogs (including Twitter/Facebook)
 6. Reading/Writing newsgroup/discussion forum messages
 7. Shopping (browsing with an intention to purchase products and services)
 8. Browsing online shopping catalogues
 9. Browsing or participating in online auction websites
 10. Organizing personal financial affairs (e.g., online banking, stock trading)
 11. Watching online media (e.g., uTube)
 12. Playing online games
 13. Checking/writing personal emails from a non-work related email account
 14. Searching for information about hobbies
 15. Browsing websites for products or services of interest (no goal of specific purchase)
 16. Participating in online gambling activities
 17. Viewing adult websites
-

To estimate how much WILB each respondent was doing in the workplace, respondents in the main study were asked to indicate incidence, frequency and duration of each activity. Specifically, on the first page respondents were given the list of WILB activities (Table 1) and asked to indicate which of the activities they performed while at work during work hours. The activities they selected determined the questions which followed (question piping). For each activity they selected, they were then asked on a new page how often in a day, and the average duration of time for an episode they spent doing the activity. They were also given the option of choosing “less than once a day” for each WILB activity. If they chose less than once a day, they were directed to a new page, set out in the same way, but asking to indicate frequency and duration in a week. Again, respondents were given the option of “less than one a week”. If this option was chosen, respondents were directed to a new page asking frequency and duration in a month.

Respondents were also asked to indicate how many hours they usually work or would usually be expected to work per week, and how many hours they worked the previous week. This information was used to estimate the percentage of time each respondent usually spent WILBing.

An estimate of total WILB time in minutes per day was calculated by multiplying the WILB per minute duration by frequency of each WILB activity. The sum was divided by 60 to give an approximation of hours per day. To convert WILB per week into a percentage, WILB per week was divided by the number of hours usually worked in a week, and multiplied by 100.

$$WILB_h = \frac{\sum_1^{17} (wildeur_n \times wilbfreq_n)}{60}$$

Where $WILB_h$ is total time in hours spent WILBing per week, $wildeur_n$ is the average duration of each WILB activity, and $wilbfreq_n$ is the frequency of each WILB activity per week.

The following equation explains the conversion of $WILB_h$ to percentage of time spent WILBing, where $WILB_h$ is hours spent WILBing per week (equation 1), and $WORK_h$ is average hours spent working in a week.

$$\%WILB = \left(\frac{WILB_h}{WORK_h} \right) 100$$

Dependent Variable

Work productivity was measured on the Endicott Work Productivity Scale (EWPS), a 25 item scale which was designed to assess attitudes and behaviors that affect work performance and efficiency ($\alpha = .78$). The instrument evaluates worker performance in the areas of: Attendance, work quality, performance capacity, and social/mental, physical, and emotional person factors.

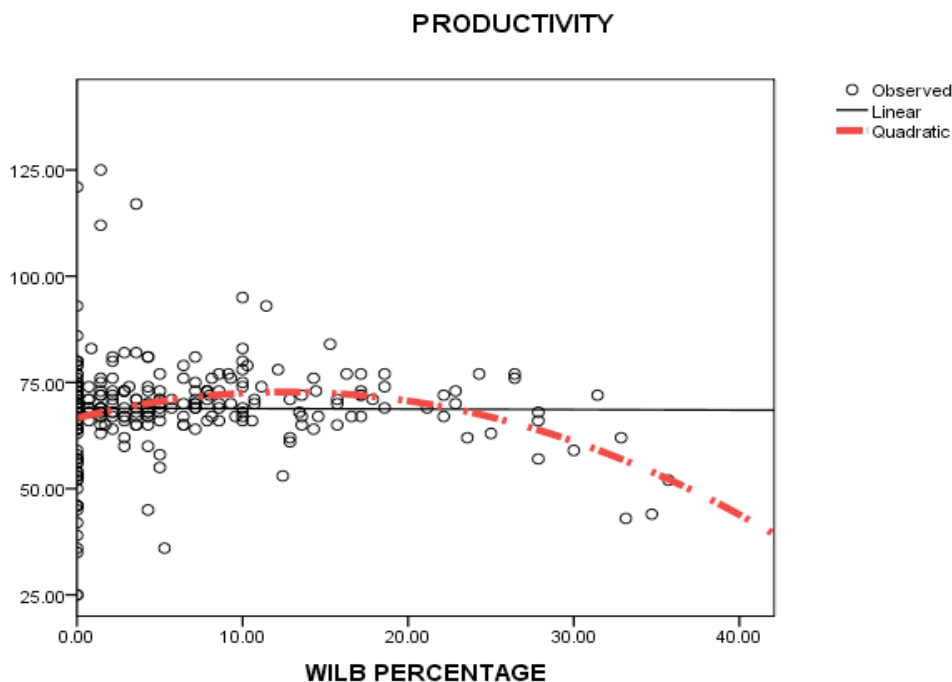
Covariates

Several additional variables were included in the questionnaire to determine if other variables were influencing the results. The covariates included: income, age, education, type of industry, occupation category, organization size, and gender. Those who indicated they were self-employed were excluded from the analysis ($n = 9$).

RESULTS

None of the covariates had any interaction with the WILB-productivity relationship. Hypothesis 1 predicted that those who WILB would have higher productivity than those who did not (or could not) WILB. The results found that those who WILBed had significantly higher productivity ($M = 70.30$; $SD = 11.90$) than those who did not WILB ($M = 64.66$; $SD = 15.14$) $F(1,258) = 12.23$, $p < .01$. Thus, hypothesis 1 is supported.

A quadratic equation was calculated to determine a point at which WILB would eventually negatively impact productivity. The results suggested a significant quadratic relationship between WILB and productivity $F(2,249) = 9.00$, $p < .0001$, implying the expected threshold where WILB began to have a negative relationship on productivity. The point of inflection was at approximately 12% (Figure 1). We interpreted this result as meaning that too much WILBing may begin to consume time needed to complete organizationally set tasks, thus supporting hypothesis 2.



Hypothesis 3 predicted that it is the frequency of WILB that affects worker performance, with shorter WILB breaks having a more positive effect on productivity than less longer breaks. To test this hypothesis, a dummy variable was created with zero representing cases who had an average WILB duration less than 40 minutes per day, and a frequency of WILB more than 8 times per day. A one way ANOVA was estimated using the dummy variable to compare productivity scores between those who WILBed for shorter periods and more frequently against those who WILBed for longer periods of time but less often. The results suggested that those who WILBed for shorter periods and more frequently had higher productivity scores ($M = 72.57$, $SD = 7.31$) than those who WILBed for longer periods less often ($M = 68.92$, $SD = 11.93$), $F(1,249) = 3.86$, $p < .05$. This result provided support for hypothesis 3.

DISCUSSION

In this research, we sought to understand how WILB affected worker productivity. The results suggest that WILB can have a positive effect on worker productivity, provided percentage of WILB does not exceed more than around 12% of work time. In a comparison of worker productivity scores, the results suggest that those who do WILB scored 9% higher than those who do not WILB. In addition, the results suggest that smaller, frequent episodes WILBing have a more positive effect on productivity than less frequent longer episodes.

This research challenges the prevailing assumption that all WILB is a negative workplace behavior. Intuitively, it is easy to envisage employees WILBing excessively at the expense of completing work related tasks, or using up expensive bandwidth. However, the results suggest that within limits, the negative effects of WILB are conditional on the extent of usage, the presence of addictive tendencies, and the degree to which a company is willing to forgo the added expense of WILB in terms of resources used at the expense of possible benefits. The results in this study are consistent with several studies that have found that short breaks can have a positive impact on task performance (Doerr 1986; Kanfer et al. 1994; Henning et al. 1997; Speier et al. 1999; Zijlstra et al. 1999). Moreover, the results complement applications of self-determination theory to organizational settings (Deci et al. 1989). In the past, SDT theory has been difficult to apply to work environments because of the simplistic dichotomous distinction between internal and external motivation (Gagné and Deci 2005). The results of this study suggest autonomy in the workplace may not only act as a powerful motivator, but may also have a positive flow-on effect to improving performance.

We note the following limitations of our research, which we believe provide a platform for future investigations of this phenomenon. We assumed in our study that episodes of WILB were not negatively distracting, taking the view that not all distractions are negative. However, as Jett & George (2003) point out, conceptually, breaks and distractions may have both negative and positive effects. We suspect that WILB could have a negative impact on task performance if it intrudes on an individual's concentration or flow state when working on a task requiring a high amount of cognitive resources (Csikszentmihalyi 1975). Thus, timed wrongly, an episode of WILB in-between a cognitively challenging task may be counter-productive if it requires the person to get "back into the groove" of concentration when finished. It could be possible that WILB is optimal when timed in between what Beal et al. (2005) refer to as "performance episodes," rather than performed mid-way during a task. This may in part explain why those with obsessive-compulsive urges to surf the internet do not show a positive correlation between WILB and productivity; their urge and timings to WILB may act as an interruption on performance rather than as a restorative break. An experimental design could add more depth of understanding into the mechanisms affecting WILB's impact on productivity.

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THE FACTORS INFLUENTIAL ON THE WEB SITE SELECTIONS OF CONSUMERS IN ELECTRONIC E-COMMERCE

Ferudun KAYA

Zonguldak Karaelmas University, Turkey

Niyazi GUMUS

Kastamonu University, Turkey

ABSTRACT

The harsh competition conditions of globalization that organizations must face and rapid developments arising in communication technologies have been identified as the primary reasons driving organizations to operate online. Through e-commerce, the organizations manage to sell their goods and services to a variety of spots worldwide by making use of communication technologies. The organizations that must consider customer satisfaction in online environment just as they must in offline environment are expected to focus on ensuring customer satisfaction in e-commerce via e-crm policies they follow. In present study, the objective is to determine the factors (system quality, service quality and word-of-mouth communication) that have an influence over the purchase decision of customers in this rapidly growing e-commerce market. In this study it is aimed to find an answer to the question "In shopping, what the motives are driving consumers to select the organizations that offer electronic commerce?" Data employed in the research have been obtained via questionnaire method. To summarize statistical findings in digital representation, descriptive analysis and to measure the validity and reliability of the prepared scale, factor analysis has been used. Subsequently in order to detect whether the factors that have an influence over the decision of internet customers vary with respect to demographic variables, variance analyses have been conducted. It is aimed that with present study, some findings and suggestions may be developed to lead the organizations engaged in internet shopping to use their resources in the most rational way for aiding their efforts to meet the needs and demands of consumers.

Keywords: *E-commerce, E-CRM, Consumer perception in E-Commerce.*

INTRODUCTION

In today's world where there is a fierce competition in online environment as well as offline environment, the organizations engaged in electronic commerce are by all accounts expected to practice e-crm applications in order to preserve their web-site customer portfolio and turn them into prolific/loyal customers in time. Otherwise they will end up as one of the ordinary shopping companies amongst the thousands. As for the enterprises, to maintain a continuous interaction with customers, to obtain information related to customer expectations, choices and tastes from the first hand and to improve themselves in line with these feedback can only be achieved via properly functioning Electronic Customer Relationship Management (e-crm) applications. That is the reason why the organizations are by all means required to initiate crm and e-crm applications in both offline and online environments.

DEFINING E-CRM CONCEPT

The worldwide pervading effect of globalization and the copycat production of goods and services accelerated the efforts of organizations to reach the customers. Regardless of the sector it belongs to, any organization is expected to distinguish itself and maintain this differentiation throughout years. However since the differences organizations create thanks to their technological advancements are not permanent, the only field organizations can keep their differences intact remains to be their relations with customers. With the aid of the long term communication organizations establish with their customers, the enterprises seize an opportunity to transform them into loyal customers to ensure longevity. Electronic customer relationship management (e-crm) not only assists in organizations to gain maximum profit from their investment in online environment but it also helps them to forge relationship with customers through customization (Mahdavi et

al., 2008:1). Throughout their e-crm applications, organizations conduct their market briefing about the brands and products by employing information technologies. With the assistance of communication technologies, they keep updated about the shifts in customer behaviors hence acquire significant advantages in both mass and personal marketing (Güleş, 2004:236; Deniz, 2002:95). Just as the organizations which operate in offline environment need desperately crm concept so do the organizations functioning in online environment. Considering the fact that customers in online environment are -compared to the ones in offline environment- less attached to brands and products, it emerges as a necessity for the firms engaged in electronic commerce to initiate e-crm applications. Furthermore, provided that modern organizations operating in offline environment supported their customer relationship applications via e-crm applications on their web sites, they would be one step ahead of their competitors. Alongside the opportunities, the Internet also presents great obstacles for their users. Today thanks to the communication technologies, the customers are much stronger, smarter and much more well-informed than they were in the past. The customers expect the organization to satisfy them more at each time which in turn transforms customer satisfaction into the greatest performance measurement for any organization. In today's world where a product or service fails to preserve its advantageous status forever, the long-term relations with customers appear as the key for stability in the growing competition and dynamic markets (Wu and Hung, 2009:2). Consequently the organizations operating in both online and offline environments must -without fail- practice crm/e-crm applications. Customer relationship management is described as a management strategy covering customer-centered strategies, sales and marketing activities that can back up those strategies, new functions such as accounting, manufacturing and logistics and the rearrangement of all business processes for everyone to get influenced by these new functions (Tolon et al., 2009:2). After grasping this definition, it is now feasible to study e-crm concept or in other words customer relations in electronic environment. Parallel to Crm, in e-crm too the basic objective is to gain new customers for the organizations, to preserve them and turn them into prolific customers (Horn et al., 2005:101). Nonetheless it is rather hard to create an e-crm and solve the problems by ensuring its continuous development in coordination with customers (Harrigan, 2009:458).

THE FACTORS INFLUENTIAL ON THE WEB SITE SELECTIONS OF CONSUMERS IN ELECTRONIC COMMERCE

It is definitely not easy for customers to select just one amongst the numerous websites in online environment. While making a selection amidst these shopping websites, the customers pay attention to certain criteria. The foremost criteria are safe and easy shopping provided by the web site, the sufficient visibility, content of the web site and finally the other customers' selection of the particular website. In one of the researches related to e-crm applications of the web site, service and information quality of the web site has been emphasized. In the research, under service quality title credibility, responsiveness, trust, empathy and some tangible factors are stated. Similarly as a part of information quality title, access quality of the web site, content quality, presentation quality and the credibility of the information on web site are given (Web and Web, 2004:431). Another study focusing on the required qualities of a web site brings up the expression 7C which are: Context, Content, Community, Customization, Communication, Connection and Commerce (Clark and Das, 2009:4). Additionally e-crm applications require the emergence of certain divergences in taking decisions about marketing-related product, price, distribution and popularity. In online environment marketing, mixed factors are required to be interactive (Odabaşı and Oyman, 2007:323, Kotler 2007, Kotorov, 2002). The factors influential on the selection of the certain e-commerce organizations' websites by the customers are given as the service quality of the web site, system quality of the web site and word-of-mouth communication concerning the web site. The factors influential on the web site selection of the customers are in general terms:

System Quality of the Web Site

In modern age witnessing the rapid development of electronic commerce, the foremost obstacle preventing customers' internet shopping is surely the security problem of the websites despite all the technological innovations achieved so far (Aksoy, 2006: 80). A good deal of customers make use of the web sites only to check the goods and services they want to purchase and prefer to shop in regular department stores. That is the reason why, e-crm practitioners should first of all pay utmost attention to web site security. The term web site quality means offering the technical qualities expected from a web site in the best way to the user. In this quality dimension which is the most important characteristics of the web site, there must be privacy of information of web site visitors or web site shoppers, easy access to the web site, quick responsiveness to the demands/problems of web site visitors or shoppers are the primary issues in the system quality dimension (Başaran and Çelik, 2008: 51). Besides, the comprehensibility of the information on web site, writing quality,

complementary feature of each other and the presence of information/expressions of the web site visitors are also related to the system quality of the web site (Web and Web, 2004: 432). The alternatives for customer expectations, quick responsiveness of the web site even in the busiest periods of the day, easy access to web site administrator, easiness in customer support information, quick access to temporary information, easy order of products and services, alternative payment methods in purchases and on-line follow up of the order are amongst the other crucial aspects of the system quality of any web site (Rodgers et al., 2005:321).

Service Quality of the Web Site

On the web site, information related to the products and campaigns need to be updated regularly and outdated campaigns should be deleted from the web site. The main page of the web site must be for sure combined with eye-catching animations and colors to enable a positive first impression on the visitors. A system quick to respond to the questions of web site visitors should be established that is why a frequently asked questions page is a must on the website. The organizations volunteering to apply e-crm in electronic commerce are expected to perform all the activities or processes by focusing on the customer (Akar, 2004: 70). The credibility of the answers given to web site customers, timely and quick implementation of the provided services, selling insured goods at all times on the web site, the use of a reliable interface on the web site, customers' feeling of trust while shopping online, 7/24 web site service are also some of the factors ensuring customer satisfaction. Both service and system quality of the web sites greatly influence web site satisfaction of the customers. The satisfaction of the customers from online shopping considerably affects their loyalty to the web sites (Rodgers et al., 2005:321). Within the framework of web site's service quality, pre-purchase attitudes of the web site customers, easy use of the web site, advantage of the web site and the richness of the media technologies on web site are some of the factors (Lawler and Vandeputte,2008:397). In virtual environment, the equivalent of the physical environment where service process takes place is design quality of the web site. In that sense, easy use of the web site, comprehensibility, interaction, site contents and site image are within this scope. To ensure an easy comprehension of the web site, legibility of typefaces, comprehensibility of texts and the options on the menu need to be meaningful. Web site should be able to interact with the customer, offer the communication means with the firm to the customer and lead the customer in the proper way (Başaran and Çelik 2008:50). The leading factors affecting service quality are as below (Yeygel, 2009:28).

- Arrangement as per needs: Adaptation of the goods/services and processes according to customers,
- Interactive contact: Supporting access and interaction with customers via full-duplex tools and channels,
- Processing/deepening: Providing stimulating and meaningful information to activate the customers,
- Interest: Solving the order-related problems, rendering information about the status of the order, focusing on the details about the purchase of customer,
- Community: Customer comment links provided by the web site, purchase circle and via online chat rooms, providing the buyers the opportunity to share views about the goods, services or brands they have bought,
- Selection: Providing the opportunity to make a comparison and selection amidst various brands and products,

Online and Offline Word-of-Mouth Communication about the Web Site

Organizations engaged in electronic commerce can protect their web sites with high technology security software and design their websites in quite a modern and attractive form but they are not on their own sufficient enough to motivate the customers to shop from a particular web site. Nowadays customers prefer to shop from web sites which have been tested and approved by others. That is why the organizations should pay attention to the communication among customers in addition to their own advertisement campaigns. In both online and offline shopping, word-of-mouth communication is a determinant in the purchase decisions of customers (Okazaki, 2009:443). Aside from advertisement which has functions such as creating awareness, establishing communication with customers and leading the customers to test and purchase goods and services, the organizations should also allot a budget for the communication amongst customers (Bodkin and Perry, 2004:20). Presently thanks to discussion forums with millions of members, customers can acquire any comment/information on shopping sites, brands, goods, services through online word-of-mouth communication. With the assistance of online word-of-mouth communication people from a variety of lifestyles and sectors can convey their opinions to one another. The fact that internet contains an abundance of information as a data store satisfies the customers. The kinds of web sites which make it possible for customers to have an exchange of ideas are perceived as quality web sites by the customers (Cheung et al.,

2007:11-12). Provided that customers are satisfied with their online and offline shopping, they reflect their contentment around which in turn becomes the most significant advertisement for the organizations. Conversely, if the customers are dissatisfied they transfer negative word-of-mouth communication. While shopping on the web site, customers are uncomfortable if the product variety of the web site is limited, the web site has restricted visual images, insufficient customer relations, difficulty to find the searched product and most significantly doubts about web site security. Order delays after the purchase, qualitative and physical differences between the actual product and ordered one, failure to follow the order or regarding itself as the representative of all customers and several other reasons may be effective in the emergence of a negative word-of-mouth communication about the particular web site (Ward and Ostrom, 2006:222). The organizations are required to pay particular attention to such factors and enable the customers to inform the complaint lines about their discontentment. By this means, certain defects and negations of the web site shall be learned and besides customer satisfaction shall be guaranteed by solving the particular problem. In the following parts of the research hypotheses have been created after literature review. In order to test the hypotheses, a data gathering tool has been developed and by giving information about the cosmos and sampling of research data gathering and analysis processes have been discussed. The analyses have put forward that 3 factors are influential on the web site selections of customers in electronic commerce. It has been detected that there is statistically meaningful difference between the demographic features of the customers and these factors and the demographic features of customers are influential on their web site selections.

METHOD

In present study, the objective has been to detect the factors that affect the customers while shopping on the internet. In line with these detections certain findings and suggestions have been attempted to develop for assisting in the most rational way the organizations in managing their resources which compose e-commerce web site. Data employed in the study have been gathered by the free surveyors checking the questionnaire form during their face-to-face interviews with the online shoppers. In the research, a questionnaire form with close-ended questions has been used as data gathering tool. Before starting the questionnaire, a screening question and “do you shop on the web?” question have been directed and only the ones answering affirmatively have been included in the research. Obtained data after the questionnaire have been coded in the objective-specific file which has been structured in SPSS (Statistical Packet for Social Science) statistic program. The cosmos of the research consists of 2.379.502 residents of Western Black Sea Region- 2009 year address-based census records- (Turkish Statistical Institute, 2010) at the age of 18 and above. The population distribution of the cities in Western Black Sea Region is as below (including city/district centers and town/village populations – 2009);

City	Population	City	Population
Zonguldak	619.812	Karabük	218.564
Kastamonu	359.823	Sinop	201.134
Düzce	335.156	Bartın	188.449
Bolu	271.545	Çankırı	185.019

On 95% significance level for the main mass of 2,5 million people; with $\pm 0,05$ sampling error ($p=0,5$; $q=0,5$) minimum level of sample size has been found to be 385 people. In determining the number of individuals in target group (Kaya, 2008:35);

$n = [N \times t^2 \times p \times q] / [d^2 \times (N-1) + t^2 \times p \times q]$ formula has been used (Baş, 2001:45). Data used in the formula:

N: Number of individuals in the target group	: 2.379.502
p: Accrual frequency or probability of the case under research	: 0.5
q: Probability of the non-accrual of the case under research	: 0.5
t: On a definite significance level, theoretical value detected from t table (for $\alpha = 0,05$)	: 1.96
d: Sampling error \pm accepted according to accrual frequency of the case	: 0.05

$$n = 2.379.502 \times (1.96)^2 \times 0.5 \times 0.5 / 0.05^2 \times (2.379.502 - 1) + (1.96)^2 \times 0.5 \times 0.5$$

$$n = 2.285.237,72 / 5.949,71$$

$$n = 384,08$$

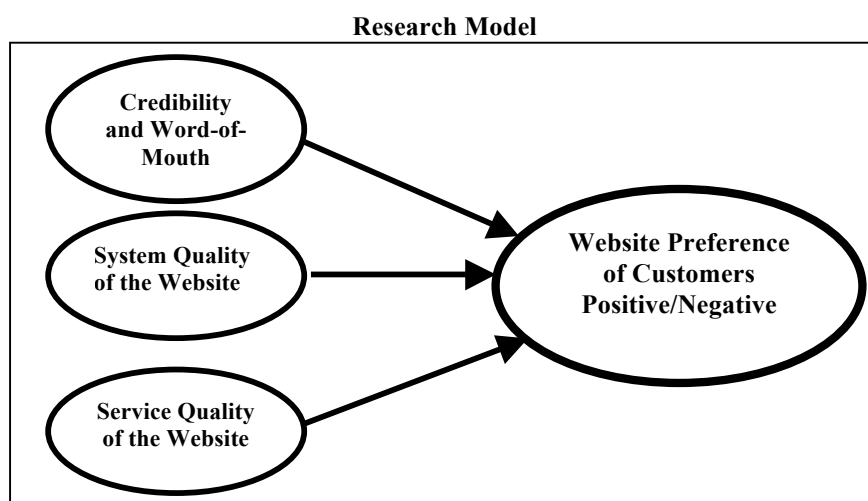
n = 385 people have been included in the sampling.

During February and March 2010 in cities within the scope of research- Zonguldak, Kastamonu, Düzce, Bolu, Karabük, Sinop, Bartın and Çankırı- the questionnaire has been completed with 425 web site customers

above-18 age who were selected via random sampling method. In order to improve the validity and credibility of research, questionnaires have been analyzed at once and skipped questions have been re-asked. As a part of the research, since during pre-review phase of the 35 data obtained via questionnaire from the sample mass were suspected of integrity they were not included in the research thus not taken into evaluation. Following the pre-review, 390 of the remaining questionnaires were found to be appropriate for analysis.

Criteria Variables, Model and Hypothesis of the Research

Parallel to the research objectives the variables influential on the variables which affect the e-commerce choices of customers have been categorized under two groups namely dependent and independent variables. The first group consists of variables related to the demographic features of customers shopping on the web while the second group is composed of behavioral variables. In the second group, 22 judgments about the preferred organization's marketing decisions have been prepared according to five Likert type scale (1=Not significant indeed, 5=Substantially significant). In this group, the customers of whose demographic features are known were asked to answer five levels of questions regarding the detection of factors influential on their shopping decisions.



The hypothesis developed to test if demographic features of customers have a meaningful influence over the e-commerce organization preferences of customers is as below:

H1: Demographic features of customers have a meaningful effect on the web site preference of customers in electronic commerce.

Web Site Preference Of Customers In Electronic Commerce

In data analysis, to summarize sampling qualities in digits and arrange the data, frequency distribution is needed. In order to detect customer attitudes on the significance of judgment influential on shopping preferences of customers the average and standard deviations of the scale have been analyzed. ANOVA test has been applied for the statistical hypotheses which have been formed whether or not customers' e-crm preferences amongst e-commerce organizations show a meaningful differentiation according to demographic features.

DATA ANALYSIS AND HYPOTHESES TEST RESULTS

Descriptive Analysis

Within the scope of research, the frequency and percentage distributions of the demographic features belonging to the web site users being questioned are shown in Table 1.

Table 1. Demographic Features of Customers (n:390)

Gender		Frequency	%
	Male	184	47,2
	Female	206	52,8
Marital Status		Frequency	%
	Married	239	61,3
	Single	151	38,7
Age		Frequency	%
	18–25	64	16,4
	26–35	153	39,2
	36–45	139	35,6
	46–55	30	7,7
	56 and above	4	1
Education Level		Frequency	%
	Primary School	8	2,1
	Secondary School	22	5,6
	High School	81	20,8
	Associate degree	119	30,5
	Bachelor's degree	109	27,8
	Post Graduate	51	13,1
Monthly Income (TL)		Frequency	%
	0–500	19	4,9
	501–1000	59	15,1
	1001–1500	96	24,6
	1501–2500	130	33,3
	2501 and above	86	22,1
Profession			Frekans
	Public Sector	103	26,4
	Private Sector	147	37,7
	Artisan/ Self-employed	102	26,2
	Student / Not employed	31	7,9
	Retired	7	1,8
Household		Frequency	%
	Living alone	53	13,6
	2–4 people	251	64,4
	5–7 people	85	21,8
	Eight people and above	1	0,3
Frequency of using Web Sites for Shopping		Frequency	%
	Less than 1 year	87	22,3
	Between 2–3 years	151	38,7
	Between 4–6 years	117	30,0
	Between 7–10 years	32	8,2
	11 years and above	3	0,8
Are you happy to shop from the Web Sites?		Frequency	%
	Yes	211	54,1
	No	26	6,7
	Sometimes	153	39,2
Monthly Average Spending Amount from Web Sites		Frequency	%
	Less than 100 TL	176	45,1
	Between 101-250 TL	131	33,6
	Between 251–500 TL	66	16,9
	Between 501-1000 TL	16	4,1
	1.000 TL and above	1	0,3
	Total	390	100,0

Factor Analysis

Before testing the hypothesis claimed to exist amidst variables with variance analyses, in order to detect structure validity of the factor scale affecting web site selections of customers and factor structures of the items, principal component analysis method and verimax conversion have been applied in factor analysis (Kaya, 2009:8-9). In the first stage of this two-stage factor analysis, 5 factors of which eigenvalue are 1 and explaining %55,798 of total variance have been detected. However amongst scale items, the judgments of which factor load remained to be lower than 0,50 (number 11, 16, 19, 20, and 21 judgments) since certain items were -in high ratios- ($>0,50$) loaded to more than one factor, were kept outside the scope of analysis. With the second factor analysis made on the remaining judgments 3 meaningful dimensions (factors) explaining 51,03% of the total variance of which items' eigenvalue is above 1 have been obtained. Prior to conducting factor analysis, internal consistency [Cronbach alpha (x)] of the questionnaire used in research has been calculated as 0,838. Since Cronbach alpha value is higher than 0,70, 22-judgment questionnaire used to detect the factors influential over web site selections of customers has been accepted as reliable.

The results of Barlett's Test of Sphericity and KMO (Kaiser-Mayer-Olkin) relevance scale are indicated in Table 2.

Table 2. KMO and Bartlett's Test

Bartlett's Test of Sphericity;	
Approx. Chi-Square	2220,123
Df	136
Sig.	,000
<i>KMO Relevance Scale</i>	0,886

Barlett's Test of Sphericity obtained results have been rejected even in zero hypotheses % 1 significance level. KMO relevance scale 0.886, Barlett and KMO test results confirm the compatibility of data with factor analysis (Sipahi, Yurtkoru and Çinko, 2006:80). The questions which have been grouped in line with verimax conversion results have been combined according to the answers and tested by reliability analysis. Factor loads of obtained factors, eigenvalues, variance percentages and Cronbach's Alpha coefficients are given in Table 3.

Table 3. The Loads of the Factors Influential on Web Site Preferences

Factors	Factor Loads	Eigen value	% of Variance	Alpha Coefficient
Factor 1: Credibility and Promotion of the Web Site (Word of Mouth Communication)				
Securing customer information privacy on the web site affects my purchase decision on the internet.	,845			
Credibility of the web site affects my purchase decision on the internet.	,833			
Smooth ordering and payment on the web site affects my purchase decision on the internet.	,798			
Continuous access to the web site affects my purchase decision on the internet.	,735			
Expert recommendations about the web site affect my purchase decision on the internet.	,724			
Comprehensibility of the information on the web site affects my purchase decision on the internet	,661			
The recommendations of the people who shopped from the web site before affect my purchase decision on the internet.	,650			
Installment possibilities provided by the web sites increase the frequency of my visits for shopping.	,627			
My friends' recommendations about the web site affect my purchase decision on the internet.	,484			
Factor 2: Service Quality				
The availability of the frequent user advantages on the web site affects my purchase decision on the internet.	,727	1,899	11,169	0,539
Enquiring customer demands/expectations on the web site affects my purchase decision on the internet.	,670			
The availability of animations on the web site affects my purchase decision on the internet.	,591			
Money points provided by the web sites affect the amount of shopping.	,524			
Factor 3: System Quality				
Easy use of the web site affects my purchase decision on the internet.	,651	1,630	9,587	0,474
The variety of the services provided on the web site affects my purchase decision on the internet.	,649			
The attractiveness of the design of web site affects my purchase decision on the internet.	,534			
The abundance of the information about the products on the web site affects my purchase decision on the internet.	,456			
Total Variance Displayed			51,053	

KMO Measure of Sampling Adequacy. 0,886. Bartlett's Test of Sphericity Approx. Chi-Square: 2220,123, df: 136, Sig.: 0,000

Once the dimensions emerging after factor analysis and the sub-variables they contain are examined it is observed that more or less 3 factors are influential on the selection of a specific website for the customers' product and service purchase decisions. The first factor is credibility and promotion of the web site (word of mouth communication). This factor that has a 0,888 internal consistency is composed of nine variables accounting for the 30,297% of total variance. The biggest contribution to the factor is provided by the variable "Securing customer information privacy on the web site affects my purchase decision on the internet". The second factor is service quality. This factor that has a 0,539 internal consistency is composed of four variables accounting for the 11,169% of total variance. The biggest contribution to the factor is provided by the variable "The availability of the frequent user advantages on the web site affects my purchase decision on the internet". The third factor is system quality. This factor which consists of four variables with 0,474 internal consistency accounts for the 9,587% of total variance. The biggest contribution to the factor is provided by the variable "Easy use of the web site affects my purchase decision on the internet".

Average and Standard Deviations of the Web Site Preference Related Attitudes of Customers

In the evaluation of the significance level attached to the given independent variables in the web site preferences of the participator customers, 5 Likert type scale has been used. Average and standard deviations of the web site preference related attitudes of customers are shown in Table 4.

Table 4. Average and Standard Deviations of the Web Site Preference Related Attitudes of Participator Customers

Variables	Mean	Std. Deviation	t Sig. (2-tailed)
Easy use of the web site affects my purchase decision on the internet.	2,8769	1,23164	(46,129)**
Comprehensibility of the information on the web site affects my purchase decision on the internet	2,8744	1,20714	(47,024)**
The abundance of the information about the products on the web site affects my purchase decision on the internet.	2,6795	1,13479	(46,630)**
The variety of the services provided on the web site affects my purchase decision on the internet.	2,3744	1,03082	(45,488)**
The attractiveness of the design of web site affects my purchase decision on the internet.	2,6282	1,17503	(44,172)**
Credibility of the web site affects my purchase decision on the internet.	3,3513	1,47723	(44,802)**
Securing customer information privacy on the web site affects my purchase decision on the internet.	3,4333	1,49873	(45,240)**
Continuous access to the web site affects my purchase decision on the internet.	2,9923	1,28565	(45,964)**
Installment possibilities provided by the web sites increases the frequency of my visits for shopping.	2,9846	1,24391	(47,384)**
Smooth ordering and payment on the web site affects my purchase decision on the internet.	3,2256	1,33775	(47,618)**
Personalized sales on the web site have an effect on my purchase decision on the internet	2,4077	1,07337	(44,298)**
The availability of the frequent user advantages on the web site affects my purchase decision on the internet.	2,3385	,96643	(47,785)**
Enquiring customer demands/expectations on the web site affects my purchase decision on the internet.	2,5103	1,14889	(43,149)**
The availability of animations on the web site affects my purchase decision on the internet.	3,2154	1,15386	(55,032)**
My friends' recommendations about the web site affect my purchase decision on the internet.	3,1641	1,12176	(55,703)**
The information available on the web site forums have an effect on my purchase decision on the internet	2,4154	1,03996	(45,867)**
Expert recommendations about the web site affect my purchase decision on the internet.	3,2333	1,17139	(54,511)**
The recommendations of the people who shopped from the web site before affect my purchase decision on the internet.	3,1026	1,19327	(51,347)**
Advertisement activities of the web sites have an effect on my purchase behavior on the internet	3,3205	1,07905	(60,771)**
Installment possibilities provided by the web sites increase the frequency of my visits for shopping.	3,3436	1,25835	(52,474)**
The campaigns I hear around encourage me to shop on the internet.	2,9949	1,21895	(48,521)**
Money points provided by the web sites affect the amount of shopping.	2,5718	1,07733	(47,143)**
Test Value	2,9108		

**,* respectively indicates 1% and 5% level of meaningfulness. (n:390)

In order to detect if the arithmetical average in Table 4 illustrating the factors influential on the web site preferences of customers is statistically different than group average 2,9108, t-test has been used.

Accordingly 22 out of 22 judgments (according to $\alpha=0,05$) have been meaningful. If an evaluation based on the order of these meaningful judgments is conducted it surfaces that; “Securing customer information privacy on the web site affects my purchase decision on the internet.” (3,4333), “Credibility of the web site affects my purchase decision on the internet.” (3,3513), “Installment possibilities provided by the web sites increase the frequency of my visits for shopping.” (3,3436), judgments have had a strong effect on the web site preferences of the participant customers whereas “The availability of the frequent user advantages on the web site affects my purchase decision on the internet.” (2,3385), “The variety of the services provided on the web site affects my purchase decision on the internet.” (2,3744) and “Personalized sales on the web site have an effect on my purchase decision on the internet” (2,4077) judgments have had a low effect.

The macroeconomic factors that grow parallel to the increasing and varying demands and needs of customers push their organizations to improve the web site services. Turning the websites into most preferred ones gained has significance. The reasons accounting for the high effects of the variables “Securing customer information privacy on the web site affects my purchase decision on the internet” and “Credibility of the web site affects my purchase decision on the internet” may be several problems such as fraud and forgery that have risen up recently. Due to such problems, customers might be in need of feeling trust towards the web site they shop in. “Installment possibilities provided by the web sites increase the frequency of my visits for shopping” variable could have been graded with a low effect due to the shortage of cash customers face; hence they are inclined to meet their future needs with the incomes they receive.

The Effects of Customers’ Demographic Features on their Web Site Selections

In this part, the findings of the hypotheses tested by one-way analysis of variance (ANOVA) which has been developed in line with research objectives are given. ANOVA test assists in analyzing the specific and general effects of independent variables on dependent variables. This test makes a calculation based on the arithmetical averages of dependent variable on factor level. In variance analysis, the groups are examined as a unity and a general conclusion regarding if or not there is a difference amidst them is arrived (Baş, 2001:142). H_0 hypothesis tested via this method indicates that group averages are equal to each other or in other terms there is not a meaningful difference in terms of the effects of factor levels. H_1 hypothesis on the other shall be regarded that there is no equality and there is a meaningful difference in terms of the effects of factor levels (Nakip, 2003:352). To detect whether demographic features of customers have a meaningful effect on their web site selections, variance analysis has been applied on research findings which then have been statistically compared. The results of the test conducted via one-way variance analysis aiming to detect the shifts in the factors influential on web site selections of customers with respect to their demographic features are given in Table 5.

Table 5: The Effects of the Demographic Features of Customers on Their Website Selections

Demographic Features	Gender		Age		Education		Income		Profession		Marital Status		Employment Status of the Household Spouse		Duration of Web Use			
	f-value	p	f-value	p	f-value	p	f-value	p	f-value	p	f-value	p	f-value	p	f-value	p		
1 Credibility and Promotion of the Website (Word of Mouth Communication)	5,723	,017*	2,217	,067	,483	,789	21,861	,000**	8,336	,000**	7,188	,008**	11,489	,001**	1,349	,258	2,384	,051
2 Service Quality	0,030	,862	1,008	,403	1,784	,115	,676	1,137	,339	,086	,605	,437	,549	,459	2,069	,104	3,576	,007**
3 System Quality	0,854	,356	1,192	,314	,921	,467	,929	,447	1,704	,148	,809	,369	,199	,656	3,075	,028*	,191	,943

** , * respectively indicates 1% and 5% level of meaningfulness. (n:390)

Occupational status of customers has been classified as public sector, private sector, artisan/self employed, student/not employed and retired. In website selection, in “Credibility and Promotion of Web Site (Word of Mouth Communication)” factor, a statistically meaningful difference has been detected as per profession. Income levels of customers have been grouped as; 0–500, 501–1000, 1001–1500, 1501–2500, 2501 and above. In website selection, in “Credibility and Promotion of Web Site (Word of Mouth Communication)” factor, a statistically meaningful difference has been detected as per income level. By considering the findings about income levels, the organizations offering web site service may reach high-income customers through distance communication methods such as e-mails. Gender of customers has been classified as male and female. In website selection, in “Credibility and Promotion of Web Site (Word of Mouth Communication)” factor, a statistically meaningful difference has been detected as per gender. It has been

concluded that female participants graded these factors higher. Parallel to the variables constituting this factor, females in particular should be informed about the credibility of the web site. Marital status of customers has been classified as married and single. In website selection, in “Credibility and Promotion of Web Site (Word of Mouth Communication)” factor, a statistically meaningful difference has been detected as per marital status. By benefiting from distance communication tools, single customers may be informed about the products and campaigns. Single customers have graded higher points hence while organizing campaigns with gifts, popularity tools ensuring the participation of single consumers should be used. In the light of research findings, organizations aiming to increase web site user number and use frequency are required to group the demands and needs of customers parallel to their demographic features because once the functions of websites are shaped in line with the demographic features, the preferences of customers to use this particular web site also increase. For the purpose of loyalty structuring in line with customer satisfaction, an above-expectation and customer-specific service based on demographic features of customers and following a customer-oriented marketing approach should be provided. Bonding strong ties between customer and organizations providing web service will be influential in selecting the products offered by such web sites. Awarding the customers who have throughout long years cooperated with web servers shall positively affect satisfaction level and such satisfaction shall be determining in web site preference. In the target market, instead of presenting the same product or service to everyone in the same way, the attempt should be to structure the messages and offers sent to customers in line with the specific demands and needs of customers. A rich data store can be formed concerning purchase preferences, demographic features of customers and the profits they provide. In this data store, different customer groups can be detected though data mining about their own products and services and for each group they can offer a different product or service.

CONCLUSION

In present research the aim has been to determine the factors influential on the web site preferences of customers and to detect if demographic features of customers have any impact while customers make their web site selection. The obtained findings from the 390 questionnaire forms employed in sampling cosmos Zonguldak, Kastamonu, Düzce, Bolu, Karabük, Sinop, Bartın and Çankırı cities amidst the customers shopping on the web sites are summarized below. It has been observed that while making a web site selection, the customers are influenced by 3 factors. In those 3 dimensions determined via factor analysis, ANOVA test has been conducted for the statistical hypotheses developed to test if customers’ web site selections varied meaningfully with respect to their demographic features. According to the findings, it has been concluded that demographic features of consumers are influential on their web site selections. A statistically meaningful difference has been detected between “Credibility and Promotion of the Web Site (word of mouth communication)”, “Service Quality” and “System Quality” factors and demographic features of customers. As the services provided by web site are structured with respect to demographic features of customers, the inclination of the customers to use specific web site also shows a rise. Therefore the hypothesis stating that demographic features of customers have a meaningful effect over the web site selection of customers has been taken as valid. Obtained findings of present research are parallel to the results of earlier studies but still in order to better detect the factors influential on web site preferences, similar studies may be conducted in different times and places and their results may be compared. Recently, web sites of enterprises have evolved into significant communication channels in finding solutions to certain needs and customer interactions. Use of web sites as communication tools shall increase the efficiency of an organizations as well (Jalkala and Salminen, 2007:826). The organizations are expected to provide first class service on their web sites by improving the relationship with customers through web chats, order follow-ups, e-mail, auto reply and personalized pages to implement their e-crm services (Hamid, 2005:51, Yayla and Altundağ 2005, Luck and Lancaster, 2003:215). In online environment, the word-of-mouth communication between not only their relatives or friends but the close community about the department stores is a vital source of information for customers hence web site administrators are required to construct a sub-structure where the customers can communicate with each other on the website (Gauri et al., 2008:3). Word-of-mouth communication (womm) intentionally affects the communication amidst customers through traditional marketing techniques. The administrators in an organization can make use of word-of-mouth communication campaigns as an elevator in both online and offline contexts (Kozinets et al., 2010:71). To sum up, due to the rising similarities between the functional features of websites, web servers face a harsh time in the competition through web-site functions. In order to succeed in this competition, before taking decisions web site servers should base their web site marketing strategies on operational methods of the market, hypotheses and facts instead of distance intuitions or multi-facet, poor data.

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STRATEGIC MANAGEMENT IN PUBLIC SECTOR

LEADERSHIP STYLE IN PUBLIC SERVICES SECTOR, EMPLOYEE SILENCE AND ORGANISATIONAL COMMITMENT RELATIONSHIP: A STUDY IN THE PROVINCE OF ORDU

M. Turan Çuhadar,
Deputy Governor of Ordu, Turkey

ABSTRACT

Human is the main and most important input resource of the organizations in the fierce competition environment of information age. The organizations attach more importance to the resource of human being because of the facts that both human creates the products and services and he himself is the final beneficiary. Extraordinary advances in information technology have turned the sphere we live on into a village. This communication and intimacy also heavily influence the public sector that has no competitors in delivering services, refrain the governments from being closed systems, expose to effects of external environment. This situation forces the public organizations to think as if they are the government and behave like private sector organizations.

Research activities were done on public institutions which are operating in public sector and on private organizations of similar services. This study on the fields such as municipality, security, education, healthcare, financial services, environment in a competition-free environment in public institutions, is a unique one in its own sphere.

It is aimed to find the relationship between organizational silence, leadership style and organizational commitment- which is a new investigational study in our country-in the study. It has been tried to analyse how this behaviour of silence of workers' willingly or unwillingly, made a consequence for the organizations, with which leaders their effects have been changed. In the end of the research it is found that there is a negative correlation between organisational silence and transformational leadership, organisational commitment, a positive significant relationship with interactionist and Laissez-Faire leadership.

Keywords: leader, leadership, organisational silence, organisational commitment.

INTRODUCTION

Strong people namely the leaders are supposed to ensure maximum efficiency in enterprises, public institutions and even in countries where individual efficiency has difficulty in rapidly changing competitive conditions; increasing complexity and group success are needed. Human is the main and most important input resource of the organizations in the fierce competition environment of information age. As a result of globalization in organizations' gaining competitive advantage "human resource" regarded as the most effective source, employees' silence especially in the context of organisational commitment and redirection of these negative aspects for organisational purposes, leadership styles and approaches are of clear importance.

Within the general culture of the organization and organisational culture is one of the most important factor affecting and triggering silence. The cultural reflections such as "silence is due to acknowledgement", "Speech is silver, but silence is gold", "The snake that doesn't touch me can live a thousand years for all I care" which preserve their validity in the Turkish public organizations are said to affect the silence. Workers' fear for losing their jobs due to the economic crisis, changing of the places they work, their anxiety about being perceived as nuisance, gossipy, and complaintive lead to silence even if they are not pleased. Civil servants appointed as an Employee until his retirement, working in the public sector except rarely exported, without touching anybody, without frightening the mules continuing his life silently might be one of the reasons of the silence.

It is a good idea to address literature studies for better understanding of the issues. In this context each concept; leadership, leadership style, silence of workers and organisational commitment subjects will be tried to make clear.

In spite of numerous researches made about the definition of leadership phenomenon which has an important place in people's organisational, social and political lives a certain consensus has not been achieved yet. The leader is someone who leads the others to behave in a certain purpose, who influence. The leadership is defined as; one's influencing the activities of others and leading process under certain conditions, to perform certain personal and group goals. According to Koçel, the leadership process is a complex process formed between the relationship of leader, audiences and circumstances and formulated as; Leadership = f (leader, audience, circumstances) (Koçel 2005).

Many researches have been made about leadership. Leadership theories may be classified in many ways. According to a classification the leadership theories may be classified as Universalistic Leadership Theories-Contingency Theories (Koçel 2005). Apart from the classifications made about leadership and their contents a summary info will be given about three leadership styles used in the study. Transformation leader is someone who changes the needs, beliefs and value judgement of the audiences. Transformation leader increases the level of the commitment of the audiences (Koçel, 2005). Transformational – Innovative leadership style has a characteristic open to future, innovation, change and reform (Eren, 1998:368). Leader is someone who changes the needs, beliefs and value judgement of the audiences, makes the organisations reach the superior performance by achieving innovation (Luthans, 1995:357). Transformational leaders has a personality that develop relationships between people and enhance the communication between them (Şoşik vd, 2004:5). Interactionist leadership depends on to which extent leader could meet the changing needs of the (Eraslan, 2004, p.4). This leadership has some characteristics such as pragmatic, present-oriented, coordinating the organization by the roles and regulations, vertical communication, egocentric, hard-featured, responsive, having its power from its present positions, centralized (Eren, 1998: 369-70; Çelik, 1998:151). The leader who has a leadership style of Laissez-Faire or Free Rein Leaders gets out of power and responsibility. The group members train and motivate themselves. If the leader does not show his authority there can be nuisance in the group (Şahin vd, 2004:659).

The construct of silence, which is also called as "silence", close communication, communication anxiety, *avoidance*, not enough or no information / lack of information, reluctance to share information, culture of silence, a climate of silence (Clair, 1997; Freire, 1970; Neuwirth, Frederick, & Mayo, 2007;) is named organisational silence by Morrison & Milliken (2000). About the reasons and basis of organisational silence studies have been made by various authors for nearly 20 years (Argyris, 1977; Redding, 1985; Nemeth, 1997). In terms of well being of the organization when the importance of the information is increased, the workers' effectively referring to the method of silence increases the importance of the issue more (Argyris & Schon, 1978; Deming, 1986; Glauser, 1984). In brief; people communicate or not. "Silence" is simply a concept that expresses the situation of not communicating. But in literature there is a little confusion in the use and scope of this term. Because this term is used in cases both related and not related with communication. Communicative silence is a silence status of people for a while during dissatisfaction. Silence could become a desirable situation if a person wants to deceive the others because of information incompatibility, wants to create an environment for them to lie (Grover, 1993, 05, Sims, 2002). As a result of organisational silence, hindering of feedbacks reduces the ability to control the mistakes of organization and fix them (Miller, 1972).

Although many studies have been done on organisational commitment subject, we see that there is not a common definition. The reason is; there are different perceptions about the structure of the relationship between workers and organisation and how it is developed (Mathieu ve Zajac, 1990:171-172). It will be useful to bear on several definitions in this part to lead to an idea about organisational commitment. Organisational commitment has a quite basic and a wider definition. The first one is 'the strength of one's commitment to the organisation' (Wahn, 1998:256) and the second one is workers' highly believing and adopting of the goals and values of the organisation, the willingness to act enthusiastically for the goals of the organisation and a strong desire to stay in the organisation and to sustain the membership status (Mowday vd., 1979, 311). According to another opinion, 'organisational commitment is behavioural acts happening as a result of the devotional attitudes of human beings' (Reichers, 1985: 468). In a one another definition 'organisational commitment has been stated as a function of harmony perceived between the person and organization' (Bateman and Strasser, 1984: 95). However all the definitions come together at a joint point that the commitment is based on a behavioural and manner like basis. In other words, workers sustain their memberships by creating a behavioural or manner like reason (Çöl, 2005). On account of this fact, while the scientist's studying on the field of organisational behaviours concentrate on behavioural commitment, social psychologists concentrate on manner like commitment (Mowday, Porter and Streers, 1982). Consequently, the term of organisational commitment can be addressed as emotional, continuance and normative commitment. It has been referred that emotional devotion is workers' own emotional desire to stay in the organisation (Huselid and Day, 1991:381; Balay 2000:21); continuance commitment is perceiving to work because of the costs and negative effects to the organisation when leaving it as an obligation (Obeng and

Ugboro,2003:84;Yalçın and İplik.2005:398;Balay,2000:21) ; normative commitment is the belief of workers that they have responsibilities towards the organisation and the belief of commitment is a must in working life (Yalçın and İplik, 2005:398;Wasti,2002:526; Obeng and Ugboro, 2003:84;)

A great many researchers have emphasized on the factors that affect the organisational commitment rather than describing it. One of the factors effecting the organisational commitment is the value of demographic and personality features (Hrebiniac and Alutto, 1972, p.557; Buchanan, 1974, p.535; Dubin vd., 1975, p.412) and the other is the value of awards system and the ordinary working in the organisation (Oliver, 1990, p.26)

Similar to researches on the factors effecting organisational commitment, there have been a lot of researches on the outputs of organisational commitment. Being highly devoted to the organisation has a positive effect on the organisation like a decisive and reliable work force (Balay, 2000, p.90). On the other hand high level organisational commitment results in consequences such as efficiency increase, product quality advance, effective communication in the organisation (Randall, 1987, p.464). Although a high level organisational commitment has positive sides such as increased client contentment(Üner, Karatepe and Halıcı, 1998), decreased absenteeism, being late to work and quitting the job (Mathieu and Zajac 1990) it also has some negative results on the organisation such as ignoring the family and other obligations, getting into stress because he/she cannot be socially developed(Mowday vd., 1982, p.140) causing decline in organisational flexibility, appearance of highly relying on the applications and as a result of this situation stabilizing traditional techniques (Balay, 2000. p.92). It is not possible to see the positive outputs gained as a result of high level commitment, in a low level kind. It has been observed that a low level commitment leads to circulation of workers in large numbers, absenteeism and being late to work, the perception of workers that they do not feel themselves as a part of the organisation, the tendency of quitting the job, decreasing the commitment levels of workers as their leaving time come closer (Clugston, 2000, p. 477)

METHODOLOGY AND FINDINGS

This study started with the impact of the personal experiences of the researcher by doing a literature scan in the second half of the year 2009. After the literature scan there have been interviews with some secondary administrators who are the experts of the subject and who can be on the centre of the study. Determining the hypothesis of the problem to be solved, some certain survey questions are set by deciding the variables of the study suitable with it. Previous studies that are valid and reliable are used in preparing the surveys. In this study in preparing questions related to the leadership styles the questionnaire form has been used developed by Bass and Stogdill (1990), in preparing the questions related to organisational silence the question format developed by Çakıcı & Çakıcı (2007) based on the literature has been used in preparing questions about organisational commitment the form of ‘ commitment focuses’ which has been developed by Meyer, Barak and Vandenberghe and translated into Turkish by Wasti and Can (2007) has been used. Question format has been organised according to the five hold Linkert scale. The answer part of each question is in the shape of 1=never 2=rarely 3=sometimes 4=usually and 5= always . The survey forms were sent to the test subjects by post and they were asked to return them back two weeks later. By loading the mathematical results of the surveys, this result has been analysed by the help of SPSS 16.0. The analysis has been mentioned within the study and its results and assessment have been involved at the end of the study.

The Hypothesis of the Study

H1: There is a relation between leadership forms and the organisational silence.

H1a: There is a relationship between leadership forms and keeping silence in the organisation because of directory and organisational reasons.

H1b: There is a relationship between leadership forms and keeping silence in the organisation because of the subjects related to the job.

H1c: There is a relationship between leadership forms and keeping silence in the organisation because of lacking experience

H2: There is a relationship between leadership forms and organisational commitment.

H2a: There is a relationship between the leadership forms and a normative commitment in the organisation.

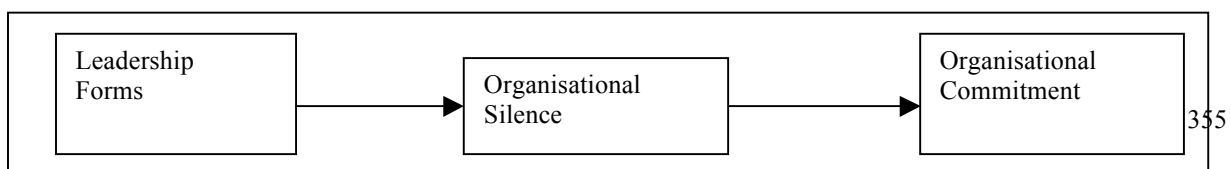
H2b: There is a relationship between the leadership forms and emotional commitment in the organisation.

H3: There is a relationship between the organisational silence and organisational commitment.

H3a: There is a relationship between the organisational silence and emotional commitment to the organisation.

H3b: There is a relationship between the organisational silence and normative commitment.

Table 1: The Model of Research Hypothesis to Be Tested



Sampling and Data

This study includes the staff that is in decision making positions, working in 25 different public corporations and organisations in Ordu such as education, health, security and order, municipality, environment and special management. The organisations in the select scope of implementation were asked to fill in the survey forms for the year 2010. The organisations answered the forms sent in the given time period and 393 working staff out of 450 gave their answers to the survey questions. A reliable organisation data has been derived from 356 answered forms out of the total to take into consideration in the evaluation process. The answering ratio of the survey is 79.1%.

Findings

Initially a factor analysis was done and the questions of which factor verification was under 0, 50 were put out of the analysis.

Table 2: Sectoral Distribution

	Frequency	Percentage	Valid ratio	Total ratio
General management	126	35,4	35,4	35,5
Education	91	25,6	25,6	61,0
Finance	40	11,2	11,2	72,2
Security-Order	29	8,1	8,1	80,3
Religious services	27	7,6	7,6	87,9
Agriculture-livestock	25	7,0	7,0	94,9
Municipality	18	5,1	5,1	100
Total	356	100,0	100,0	

Reliability value is the degree of the same results in repeated measurements of an evaluation instrument. To be able to say that a result of an analysis is correct, it supposed to have bigger Alfa number than the amount 0,70 (Eymen, 2007) the reliability levels are given in the table below separately. The direction and intensity of relationship between two variables are accounted in the correlation analysis (Eymen, 2007)

Table 3: correlation analyze

factors	1	2	3	4	5	6	7	8
Transformation	$\alpha=,885$							
Leadership								
Interaction Leadership	,639**	$\alpha=,885$						
Laissez-Faire	-,561**	-,565**	$\alpha=,889$					
Leadership								
Factors about directory and organization	-,617**	-,719**	,643**	$\alpha=,946$				
Factors about the job and the working environment	-,551**	-,619**	,556**	,800**	$\alpha=,960$			
Lack of experience	-,241**	-,337**	,323**	,445**	,488**	$\alpha=,709$		
Emotional commitment	,316**	,273**	-,209**	-,301**	-,330**	-,215**	$\alpha=,710$	
Normative commitment	,098	,071	-,006	-,032	-,031	-,009	,492**	$\alpha=,939$

** . Correlation is significant at the 0.01 level (2-tailed).

According to the correlation analysis ,it has been understood that There is an adverse relation between Transformation leadership and the directive and organisational reasons effecting silence (-,617**), issues related to the job (-,551**) lack of experience (-,241**).Considering the data derived from the study it can be said that in the organisations having a Transformation leaders .workers do not keep silence and they can talk to their superiors about their duties and problems. It has been understood that in these organisations there is a

positive relationship with emotional devotion (.316**) namely the emotional commitment is high in the organizations having a transformist leader and there is not any kind of relation with the normative commitment. There is a negative relationship between the interaction leadership and the directive and organisational reasons (-,719) effecting the organisational silence issues related to the job (-619**) lacking experience (-337**). Although there is a positive relation with normative commitment (.273) there is no relation between emotional commitment(.071) and the interactivist leadership. There is a positive relation between the Laissez-Faire leadership and the directive and organisational reasons (.,643**), the issues related to the job(.556**), lacking of experience (.,323**) and there is a negative relation with emotional commitment (-,209**) there is no relation with normative commitment.

Regression analysis is the one that gives us opportunity to find cause and affect relationship between the variables. (Eymen 2007)

The Relation of Directory and Organisational Facts One of the Reasons of Silence of Workers between the Leadership Styles

H1a.: There is a relationship between directory and organisational reasons of organisational silence and leadership.

Table 4. Regression Analysis of Leadership styles and directory and organisational reason

INDEPENDENT VARIABLES	β	t	Sig.	Result
Transformation Leadership	-,150	-3,106	,002	approval
Interactivist Leadership	-,459	-9,549	,000	approval
Laissez-Faire Leadership	,379	6,952	,000	approval

Dependent Variable: factors related to the directory and the organisation

R ²	F	Sig.
,636	170,867	,000a

P < 0,01

The data in the table 7 shows that our model is substernal. (F=170,867, p=, 000). It has been accounted that the ratio of R² the independent variables' explaining dependent variables is 636. The leadership styles effects the organisational silence caused by directory and organisational reasons with the percentage of 63,6. It has been understood that the most important reasons of workers' silence are directory and organisational ones.

According to the results of regression analysis three of each leadership styles affect the silence caused by the directory and organisational reasons. Transformation leadership ($\beta = -,150$, p=,000) effects the silence in a negative percentage of 15,0, interactivist leadership ($\beta = -,459$, p=,000) effects the silence in a negative percentage of 45,9 and Laissez-Faire leadership ($\beta = ,379$, p=,000) effects the explaining of silence in a negative percentage of 31,4

The subordinates working with the Transformation leaders having good relationships with the workers, making his/her workers feel special, letting them to learn by making mistakes, are able to share their problems and their ideas about the job without fear and freely. So it can be thought that the silence of the workers who work with the employers providing changes to make them progress may decrease. The beliefs of workers who do not trust his/her manager, such as 'there will be no change when I speak openly because the 'I know the best' attitudes of the managers and I will be exposed to unfairness and bad treatment, may increase the keeping silence of workers in the organisation.

The Relation of Issues of Work One of the Reasons of Silence of Workers between the Leadership Styles

H1b: There is a relationship with the reasons of workers' silence and the leadership styles

Table 5: Regression analysis of the issues related to the work and Leadership styles

INDEPENDENT VARIABLES	β	t	Sig.	Result
Transformation Leadership	-,168	-2,898	,004	approved
Interactivist leadership	-,395	-6,787	,000	approved
Laissez-Faire leadership	,223	4,086	,000	approved

Dependent Variable: Factors related to the work and the working environment

R ²	F	Sig.
,464	86,924	,000a

P < 0, 01

The data in the table 8 shows that our model is substernal.(F=86,924, p= ,000). It has been accounted that the ratio of R² the independent variables' explaining dependent variables is 464.The leadership styles effects the organisational silence caused by issues related to the job with the percentage of 46,4.

According to the results of regression analysis three of each leadership styles affect the silence caused by the issues related to the job. Transformation leadership ($\beta = -,168$, p= ,000) effects the silence in a negative percentage of 16,8,interactivist leadership ($\beta = -,395$, p=,000) effects the silence in a negative percentage of 39,5 and Laissez-Faire leadership ($\beta = ,223$, p=,000) effects the explaining of silence in a negative percentage of 22,5.

The workers thinking that the people talking about problem are not welcomed; talking would cause the change of his/her position oar even the work place; when talking openly the directors and colleagues would have negative attitude towards him/her, may choose to keep silence in the organisation considering the negative effects they may get. They may worry about having extra responsibilities not only when talking about the problems but also when giving advice.

The Effect of Lack of Experience One of the Reasons of Silence of Workers between the Leadership Styles

H1c: There is a relationship between the leadership styles and the keeping silence in the organisation because of the lack of knowledge

Table 6.Leadership styles –Regression Analysis of Lack of Experience

BAĞIMSIZ DEĞİŞKENLER	β	t	Sig.	Result
Transformation Leadership	,024	,322	,747	Objection
Interactivist Leadership	-,256	-3,510	,001	Approval
Laissez-Faire Leadership	,186	2,717	,007	Approval

Dependent Variable: Lack of Experience

R ²	F	Sig.
,142	16,776	,000a

P < 0,01

The data in the table 9 shows that our model is substernal.(F=16,776 p= ,000). It has been accounted that the ratio of R² the independent variables' explaining dependent variables is 142.The leadership styles effects the organisational silence caused by the lack of experience with the percentage of 14,2.

According to the results of regression analysis there is no relation between the Transformation leadership and experience, interactivist leadership ($\beta = -.256, p = .001$) effects the silence in a negative percentage of 25,6 and Laissez-Faire leadership ($\beta = .186, p = .007$) effects the explaining of silence in a negative percentage of 18,6

The dilemma that the workers have been through is both related to the self confidence and courage and the director. The thoughts like “I do not have enough experience to advice or talk about the problem that I will discuss about may reveal my lack of knowledge because my position is a lower one there will not be any importance of my talking of ideas” may cause the worker keep silence about the issues related to his/her job.

The Relationship between Normative Commitment and Leadership Styles

H2a: There is relationship between the normative commitment and the leadership styles.

Table 7: Regression Analysis of leadership styles and normative commitment

INDEPENDENT VARIABLES	β	t	Sig.	Result
Transformation leadership	,107	1,342	,181	Objection
Interactivist leadership	-,011	-,132	,895	Objection
Laissez-Faire leadership	,051	,687	,493	Objection

Dependent Variable: normative commitment

R ²	F	Sig.
,007	,713	,545a

P < 0,01

The data in the table 10 shows that our model is not substernal. ($F = .713, p = .545a$) The defining rate of independent variables of dependent variables is R^2 at 0,,007 value. The leadership styles effect the normative commitment at a pretty low percentage of 0,07.

According to the regression analysis there is no relation between the leadership styles and the normative commitment. It has no effect to define normative commitment comparing transformation leadership to normative commitment ($\beta = .107, p = .181$); interactivist leadership to normative commitment ($\beta = -.011, p = .895$); Laissez-Faire leadership to normative commitment ($\beta = .051, p = .493$) The worker do not consider leaving the working environment where there are good relationships, appreciative directors and where he/she has the opportunity to improve him/herself.

The Relationship between Emotional Commitment and Leadership Styles

H2b: There is a relationship between the leadership styles and the emotional commitment

Table 8: Regression analysis of the leadership styles with emotional commitment

INDEPENDENT VARIABLES	β	t	Sig.	Result
Transformation leadership	-,101	-1,069	,286	Objection
Interactivist leadership	-,224	-2,306	,022	Approval
Laissez-Faire leadership	-,056	-,888	,375	Objection

Dependent Variable: emotional commitment

R ²	F	Sig.
,118	12,968	,000a

P < 0,01

The data in the table 11 shows that our model is substernal. ($F=12,968$ $p=,000$). It has been accounted that the ratio of R^2 the independent variables' explaining dependent variables is 0,118. The leadership styles effects the emotional commitment with the percentage of 14,2.

According to the results of regression analysis there is no relation between the Transformation leadership and the Laissez-Faire leadership, interactivist leadership ($\beta= -,224$, $p=,022$) effects the emotional commitment in a negative percentage of 22,4. As regards to the results in the study there is an emotional commitment to the organisation where there are joint relationships under the directory of a Transformation leader.

The Relationship between Emotional Commitment and Organisational Silence

H3a: There is a relationship between emotional commitment and organisational silence.

Table 9: Organisational Silence – Regression Analysis of emotional commitment

INDEPENDENT VARIABLES	β	t	Sig.	Result
Factors related to the directory and the organisation	-,101	-1,069	,286	Objection
Factors related to the job and the working environment	-,224	-2,306	,022	Objection
Lack of experience	-,056	-,888	,375	Objection

Dependent Variable: emotional commitment

R^2	F	Sig.
,118	12,968	,000a

$P < 0,01$

The data in the table 11 shows that our model is substernal. ($F=12,968$ $p=,000$). It has been accounted that the ratio of R^2 the independent variables' explaining dependent variables is 0,118. Organisational silence effects the emotional commitment with the percentage of 11,8

According to the regression analysis results there is not any relation in keeping silence between emotional commitment and factors about directory and organisation and lack of experience. The factors related to the job and the working environment ($\beta= -,224$, $p=,022$) has a 22,4 % effect on explaining the commitment

The Relationship between Organisational Silence and Normative Dependency

H3b: There is a relationship between organisational silence and normative dependency

Table 10: Organisational Silence –Regression Analysis of normative dependency

INDEPENDENT VARIABLES	β	t	Sig.	Result
Factors related to the directory and the organisation	-,020	-,212	,832	Objection
Factors about the job and the working environment	-,014	-,144	,886	Objection
Lack of experience	-,015	-,228	,820	Objection

Dependent Variable: normative dependency

R^2	F	Sig.
,002	,180	,910a

$P < 0,01$

Table 13 ($F= 20,101, p= ,000$) shows that it is impossible to explain the dependent variables with the independent variables. The value of R^2 has been calculated as 0,008. The amount of 0,2 % of normative dependency can be explained by the organisational silence variable.

According to the results of the regression analysis there is no relationship in keeping silence between normative dependency and the factors related to the directory and the organisation, the factors related to the job and the working environments and the lack of experience.

Table 11: The Model Developed As a Result Of the Study

LEADERSHIP STYLE	RELATIONSHIP TYPE	REASON OF SILENCE	RELATIONSHIP TYPE	COMMITMENT TYPE	RELATIONSHIP TYPE	COMMITMENT TYPE
Transformation Leadership	.....→	Factors related to the directory and the organisation	↔	Emotional	↔	Normative
	.....→	Factors related to the job and the working environment	.....→	Emotional	↔	Normative
	↔	Lack of experience	↔	Emotional	↔	Normative
Interactivist Leadership	.....→	Factors about the directory and the organisation	↔	Emotional	↔	Normative
	.....→	Factors related to the job and the working environment	.....→	Emotional	↔	Normative
	.....→	Lack of experience	↔	Emotional	↔	Normative
Complete freedom providing Leadership	→	Factors about the directory and the organisation	↔	Emotional	↔	Normative
	→	Factors related to	.....→	Emotional	↔	Normative

		working environment				
	→	Lack of experience	⊕	Emotional	⊕	Normative

→	Pozitive relationship
⊕	No relationship
⋯→	Negative relationship

RESULT AND ASSESSMENT

As can be understood from the title of the subject this study has been done on the workers of public services of public organisations. It is known that the factors that might have oppressive effects on workers such as working formalities and Fundamentals of working in public services, employing, dismissing are in the frames of law and especially dismissing a worker is of tough conditions. The general situation is that a staff working in public sector stays in his/her position until retirement except extraordinary situations. This fact reduces the efficiency of directors or leaders on workers. So there has been a decrease on the organisational behaviours like organisational commitment, being directed by the leaders when the workers guarantee his/her life. As can be understood from the study in the three types of leadership there is not an effect or support of keeping silence except the job and working environment related silence factors. In the same way from the point of effecting organisational commitment, only the factors related to the job and working environment effect the emotional commitment in a negative way.

According to the verifications derived from the study it has been sensed that the situation is rather different in public or business. In a research (BİLDİK, 2009) the leadership styles in businesses, organisational silence and organisational commitment were examined and the data proved that there are considerable differences between public and private sectors. It has been found out that there is a positive relationship between the Transformation leadership and normative commitment and a negative relationship with other factors except lacking knowledge that leads silence. It has been tracked down a positive relationship between interactivist and complete freedom providing leadership along with both organisational constancy and all facts of silence.

As it is for any kind of study this is the one which have also had a lot of constraints. Taken into consideration the fact that these constraints may have influence on the obvious differences between the studies, it can be referred that this field is an intact one and needed to be explored. The fact that there are serious differences between the two studies leads us to the conclusion that there should be much more researches on both fields. It has been advised to study giving a chance to compare the public and private sectors and to choose more specific fields with the researches to be done on the workers of public services sectors.

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STRATEGIC PLANNING FOR LOCAL GOVERNMENT: A CASE STUDY

**Seher Arslankaya
Tülay Korkusuz Polat
Sakarya University, Turkey**

ABSTRACT

Institutions, whether they are public or private, work in order to accomplish their primary goals in accordance with the reasons for their existence. Recent developments bring along changes in the structure of the societies as well as changes in the structures and administrative mentalities of the institutions. In this context “Strategic Management” is one of the approaches that is widely accepted. Especially with European Union harmonization process strategic management model has been started to be applied in public enterprises. This process can work better if strategic planning is made obligatory for public enterprises. This study tells about the strategic goals that have to be obeyed by City of Sakarya Special Provincial Administration to improve their quality of service and to keep up with the changes, the targets/sub targets identified to accomplish these strategic goals, measurable performance indicators defined for targets/sub targets and the preparation process of strategic plan of 2010-2014 involving target values.

Keywords: Strategy, Strategic Management, Strategic Planning, Public Management

INTRODUCTION

Strategy is one of the critical factors of continuing one’s existence and improving in personal, institutional and organizational structuring.

A strategy addresses simultaneously which goals the organization wants to achieve and how it can achieve them. It is a description of ambitions, together with work programs, actions and practical alternatives to reach these ambitions (Bryson, 2004). In Turkish “strategy” means “dispatching, directing, sending and guiding” (Eren, 1997).

Strategic Management is a long-term and forward-looking understanding which defines the way between the current situation of the institution and the situation to be achieved. The main objective of the strategic management is to strategize, to apply these strategies and to make improvements by evaluating the results. Strategic management always strives towards betterment and quality, embodies the activities of budgeting, source planning, program evaluation, performance, review, improvement and reporting.

Strategic management is “concerned with determining the future direction of an organisation and implementing decisions aimed at achieving the organisation's long and short-term objectives”. Hence, the entire strategic management process can be said to comprise two major dimensions that are interlinked: strategic planning and strategy implementation and control. In strategic planning, strategic decisions are made concerning the organisation's mission and vision, its objectives and targets, as well as methods for achieving the objectives and targets. Strategic planning and corporate planning are sometimes used interchangeably in the literature to refer to an extensive organisation-wide resource allocation process. On the other hand, strategy implementation and control is about translating strategic decisions into concrete actions necessary to achieve desired levels of performance (Mugabi et al, 2007).

In this study, concepts of strategy, strategic management and strategic planning are discussed and as an example strategic plan of City of Sakarya Special Provincial Administration is given.

STRATEGIC PLANNING

Strategic planning is one of the primary objects of an institution. It involves the identification, implementation and monitoring of strategies of the institution which define the behavior of the institution

under changing and indefinite environmental conditions. In this concept executives should define institution's mission, vision and basic values and set strategies which help institutions reach their goals in the light of these.

In literature there are several definitions on strategic planning. Strategic planning is management of the decisions and activities which define a company's long-run performance (Wheelen and Hunger, 2003). McNamara (2006) defines strategic planning as determining where the company will be next year or the following years, how they will go there and whether it will go there or not.

Strategic planning is described as generating the future mission and vision of the institution in a dynamic environment and changing surroundings, determining strategic objectives and measurable targets, measuring the performances by predetermined indicators and monitoring and evaluating this process. It is a participative approach which enables the budget of an institution to be in accordance with the aims and targets in the strategic plan from a forward looking point of view and give priority to resource allocations.

Strategic planning can be used to explain the instructions, to define a wide vision, to solve the problems and/or accomplish the objectives. A strategic plan clearly portrays the objective of the organization and builds realistic objectives and targets which are consistent with the mission within the implementation capacity in a defined period. Strategic plan enables institutions to use their sources as efficient and effective as possible by focusing on the sources in key priorities. Gill et. al., (2005) explain the main objective of a strategic planning study as follows:

- Defining the goals of the organization,
- Creating key capabilities,
- Ownership,
- Priorities,
- Measuring and assessment,
- Leadership,
- Creating strong teams,
- Providing satisfaction,
- Increasing productivity,
- Solving great problem,
- Organisational focus.

Strategic planning practices are very beneficial for organizations. These benefits can be listed like this (KorkusuzPolat, 2007). During implementation it builds realistic objectives and targets which are consistent with the defined mission of the organization. Therefore, it necessitates these objectives and targets to be delivered to whole organization. It defines the behavior of the organization against uncertain events and minimizes the risks. It helps managers understand each other and simplify focusing on the same objectives. It gathers the workers of an organization around a vision and presents the necessary reasons for prioritization in the institution. It makes the sources of the organization to be used effectively and efficiently. It allows measurable progresses and builds appropriate infrastructures which can make required changes whenever necessary. It lets the organization focus towards its own objectives and therefore leads a more efficient production. It enables the executives to have a healthy communication among each other and other employees. It supports a management based on targets and performance.

Strategic Planning Process

In order to make a strategic planning in an institution different processes are suggested by different authors (ISNAR (2006), Wheelen and Hunger (2003)). Öztemel (2004) defines Strategic Planning Process Map as it is illustrated in Figure 1.

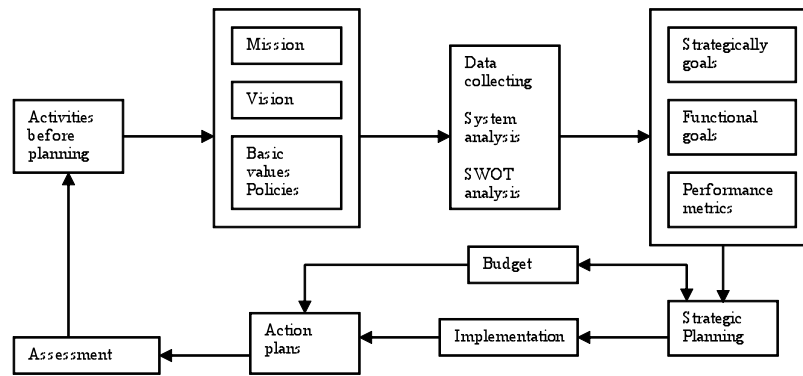


Figure 1. Strategic planning process map (Öztemel, 2004)

Strategic Planning Process Map, which was suggested by Öztemel (2004) and is illustrated in Figure 1, shows this interrelationship of the activities of the process. Being aware of these relationships among the processes while the activities of making, implementing and reconsideration of the strategic plan are accrued facilitates related operation and required changes. Basic functions of the strategic planning process are explained as follows.

A **mission statement** is a general expression of the overriding purpose of an organization that, ideally, is in line with the values and expectations of major stakeholders. Mission statements are often regarded as “enduring statements of purpose that distinguish one business firm from others” (Kemp and Dwyer, 2003).

While improving its mission statements, an institution has to be careful about accepting the objective of the organization unanimously, assigning standards in allocating sources, generating corporate culture and organizational climate, facilitating accomplishing the objectives in the work structure that involves defining the positions of the employees, determining organizational objectives, turn the objectives into targets and finally choosing valuable and manageable performance parameters (time, cost etc.) for these objectives.

Most of the strategic management implementers and researchers think that an efficient mission statement should have 9 characteristics. Taking all this components into consideration and involve all of them in determination of the mission is crucial. (David, 2003).

Vision, which expresses common goals and beliefs, is a critical factor which defines what an institution ought to do in order to accomplish its objectives and where it wants to be in the future and which is a consolidative function among the different units of an institution. Vision should be taken into consideration as the objectives which define the prospective position of the institution and which enable the institution to be in the desired position in the future in the direction of predetermined criterion.

After the mission and vision of the institution is determined the basic values which have to be obeyed in the light of this mission and vision should be clearly and openly designated. These principles are significant factors in determining the mission and vision. Core values must express the corporate culture and policy.

One of the most crucial steps of Strategic Planning is SWOT (Strength, Weakness, Opportunities, Threat) Analysis. The main philosophy of this analysis is to evaluate the current position of the institution considering the environment of the institution and other institutions and determining the “strong and weak” points. Strong sides include any element which increases the chances of competitiveness of the organization in the market and influences the corporate improvement in a positive way. Weak sides include any elements which diminish productivity such as lack of qualified employee and which cause losing competitive advantage and financial sources. In planning process it is important to supply information in order to supplement weak sides with the strong ones. Similarly to bring out the “threads” which are beyond the control of the institution but which at the same time hinder improvement of the institution such as legal reforms and increase of the efficiency of the rivals in the market and to get rid of the problems by utilizing the possible “opportunities” which support the growth of the institution and which solve the problems (like taking advantage of new technologies) are other objectives of this analysis.

SWOT analysis is a strategic management technique which enables companies not only to estimate their own situation but also to analyze the structure of the market and the situations of the rivals (Aktan, 2006). (For detailed information on SWOT Analysis look Paliwal, 2006, Kajanus et. al., 2004, David, 2003, Bryson, 2004). SWOT matrix (David, 2003) is a widely used approach which shows the results of SWOT analysis in a matrix. With this approach Strong side – Opportunity Strategies which uses the strong sides in order to obtain opportunity advantages; Weak Side – Opportunity Strategies which overcome the weak sides by obtaining opportunity advantages; Strong side – Threat Strategies which utilizes strong sides in order to avoid threats; Weak side – Threat Strategies which avoid threats and minimize the weak sides are determined.

When the strategy of the institution is determined the current situation of the institution has to be analyzed in detail. The sector of the institution, technology, competition conditions, environmental factors, sources of the institution are some of the constituents that have to be taken into consideration in determining the strategy.

Objective of the strategy assessment should be finding out the strategies which contribute to the success of the company. With this objective it is inevitable to evaluate the strategic alternatives in the light of particular criterion. When the strategy of the institution is established, consistence of the strategy with the vision and the mission of the institution, appropriateness of the strategy with trade circle and processes, validity checking of the data and the information, determination of the risks an institution faces or can face which can be overcome whenever necessary, reasons for strategy implementation reasons and evidences proving the relationship between the expected and what is available must be taken into consideration. (Öztemel, 2004).

Functional objectives are the final results of the planned activities. Since it is impossible to control whether immeasurable objectives are met or not, during the setting process their being measurable is strictly recommended. Another significant theme is that when the objectives are set companies have to pay attention to the source facilities of the institution. After the functional objectives are set these objectives should reduce to unit/process base. In order to determine in what percentage the functional objectives are accomplished i.e. whether they are met or not, a single performance indicator should be assigned for each functional objective.

With determined strategic objectives and targets strategic plan of the institution is generated and it is evaluated and reviewed periodically.

STRATEGIC PLANNING IN PUBLIC ENTERPRISES

When the problems of the public enterprises are thought activities being fulfilled schemingly gains importance increasingly. With strategic planning studies the goal congruence of the organization is provided by disciplining during the process of budget preparation and implementation, allocating the sources according to the strategic plan, periodically monitoring whether the objectives are accomplished and making necessary improvements. Therefore, in public enterprises “strategic planning” is adopted as a basic tool just like the private ones. Besides bringing efficiency/productivity to public finance management strategic planning also supports definition of the goals of the institution, feeling of ownership and corporate culture, employee and consumer satisfaction.

Strategic plans to be prepared by public administrations within the frame of the national development plans and strategies increase the effectiveness of the implementation and planning process including programs, sectoral master plans, regional plans and urban development plans and contribute to the rational usage of the sources. According to the 9th article of Public Financial Management and Control Law No. 5018 strategic plan is defined as “a plan including medium and short-term goals of public administrations, basic principles and policies, objectives and priorities, performance measures, methods to be followed in order to achieve these and resource allocations of public administrations.” The same law states that “in order to form missions and visions for future within the framework of development plans, programs, relevant legislation and basic principles adopted; to determine strategic goals and measurable objectives; to measure their performances according to predetermined indicators, and to monitor and evaluate this overall process, public administrations shall prepare strategic plans in a cooperative manner.” Besides Law No. 5018 with Municipality Law No: 5393 and Metropolitan Municipality Law No: 5216 all the municipalities with population over 50.000 are liable to prepare their own strategic plans. Moreover, with Special Provincial Administration Law No: 5302 special provincial administrations have to prepare their strategic plans as well. (DPT, 2006).

Duties of The Special Provincial Administration

According to the 6th article of Special Provincial Administration Law No: 5302 the duties of Special Provincial Administration are listed as follows:

- With the a subsection of the 6th article of Law No: 5302 the services within the province border are listed as: “Youth and Sports, health, agriculture, industry and trade; provincial development plan, public works and settlement, preservation of soil, prevention of erosion, culture, art, tourism, social services and assistances, granting micro loans to the poor, nursery schools and orphanages, procurement of plots of lands for primary and secondary education schools, and construction, maintenance and repairs of the school buildings.”
- With the b subsection of the same Law the services out of the municipal border are identified as: “Reconstruction, road, water, sewage, solid waste, environment, emergency aid and rescue, culture, tourism, youth and sport; support to Forestry villages, Forestation, building park and garden”
- It involves the local and common qualified services of the city.

CASE STUDY

According to the 9th article of Public Financial Management and Control Law No. 5018 and 31st article of Special Provincial Administration Law No: 5302, special provincial administrations are obliged to prepare the strategic plan and annual performance plan of the city. This study tells about the strategic goals that have to be obeyed by City of Sakarya Special Provincial Administration to improve their quality of service and to keep up with the changes, the targets/sub targets identified to accomplish these strategic goals, measurable performance indicators defined for targets/sub targets and the preparation process of strategic plan of 2010 – 2014 involving target values.

This plan is prepared to form and guide the activities of City of Sakarya Special Provincial Administration between years of 2010 – 2014. This very strategic plan presents the strategic objectives consistent with the mission and vision of Special Provincial Administration and the targets of the Special Provincial Administration to accomplish these strategic objectives to the attention of those concerned.

The strategic objectives and targets presented in this plan contain the related duties and responsibilities of Special Provincial Administration. Under the leadership of City of Sakarya Special Provincial Administration that adopt a corporate management mentality for the future of Sakarya, with the participation of Presidency Council of Sakarya Provincial Assembly, Group Deputy Chairmen, Presidents of the Specialization Commissions, Delegates of Provincial Directorates, Delegates of the Municipalities, Non-governmental Organizations, Delegates of the Voluntary Organizations and Academic Members of University of Sakarya team of provincial strategic planning was generated. Studies of strategic planning are conducted by strategic plan preparation group with the approval of Provincial Assembly. Strategic objectives include the working areas of Special Provincial Administration and the priority issues of Agriculture – Trade – Tourism – Education – Health (A – 2T – E – H) which were determined in the previous studies. For each strategic objective with the participation of Directorates of Special Provincial Administration and Delegates of Provincial Directorate targets and sub targets, performance indicators and target values were designated.

Strategic Planning Studies started with the training of “Strategic Planning” to the related commission. With the commission, mission, vision and basic principles have been updated and SWOT analysis studies have been started. SWOT analysis results were requested from Special Provincial Administration and Provincial Directorate and after the obtained results were evaluated by Commission of Preparing Strategic Plan, necessary corrections were made. SWOT Analysis results and A – 2T – E – H were evaluated by requesting strategy suggestions from Special Provincial Administration and Delegates of Provincial Directorate and necessary changes were made. To accomplish the defined strategies target and sub target suggestions from Special Provincial Administration and Delegates of Provincial Directorate were taken, suggestions were discussed by the commission and then allowable corrections were made. Commission determined the targets and sub targets, performance indicators and target values and based on these the budget was determined as well. After many meetings to review the prepared strategic plan draft it was introduced to the commission.

After the approval by the commission the draft was presented to Secretary General and to the Head of Departments; after their approval it was presented to Provincial Council and finally to Provincial Assembly; The Strategic Plan of City of Sakarya Special Provincial Administration for 2010 – 2014 was accepted unanimously.

CONCLUSIONS

Prepared strategic plan should contain what is desired to be done with the targets and at which level and how it will be done. If strategic plan is prepared after determining the performance indicators to measure the applicability of the targets which accomplish the strategic objectives, then its factualness can be discussed. Applicability of the plan is based on the correct selection of the targets, their having no obstacles, adequate sources and finally consistency among the targets.

For the implementation of the plan, required sources should be compensated from the resources of public and private sectors, from foreign capital, from the enterprises in other districts or from credits; also cooperation with University, Metropolitan Municipality, Provincial Municipalities, Non-governmental Organizations, Delegates of the Voluntary Organizations and with State Planning Organization. In this context there are 16 strategies, in the strategic plan of City of Sakarya Special Provincial Administration and the strategic plan of 2010 – 2014 has been started to be applied.

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ADOPTION OF PERFORMANCE MEASUREMENT AMONG PUBLIC SECTORS IN MALAYSIA: AN EXPLORATORY STUDY

**Ruzita Jusoh, Rudyanto Azhar, Haslida Abu Hassan,
University of Malaya, Malaysia**

ABSTRACT

This paper focuses on the adoption of performance measurement in public sectors in Malaysia. The objectives of the study are to examine the extent to which performance measurement is designed and linked to the strategy and the extent of performance measures being used in a balanced manner in accordance to the balanced scorecard (BSC) approach. A survey was conducted to senior civil servants and the results reveal that the design of public sector performance measurement system is moderately well developed. In examining the balanced nature of performance measurement, this study reveals that there is an overall lack of balanced indicators except for indicators on financial and non-financial such as input, activity and output indicators.

INTRODUCTION

There is an increasing interest on the performance measurement in government since late 1980s encouraged by the new public management movement (Osbourne and Gaebler, 1992). Many governments have adopted some sort of performance measurement initiatives to enhance their services and promote transparent and accountable government. However, implementations and practice of performance measurement has been recognized as much less than comprehensive (Niven, 2002). Much has been written in theory about performance measurements. However, less is known in practice about their operation, especially in the public sector and in Malaysian context. Therefore this paper reports an attempt to investigate the perception of senior civil servants of Malaysian public sector on the performance measurement design and implementation. A study was conducted to examine the extent to which performance measurement is designed in line with the strategy, how it has been implemented and the extent to which it has been used. This study resembles partly the research done by Hoque and Adams (2008) in the Australian government.

There were several reasons for undertaking this study. The first reason is to date, the design and choice of the performance management systems within government departments received minimum attention from researchers and least explored especially in Malaysia. The most recent study was conducted by Hoque and Adams (2008) in Australia. A quite similar study was done much earlier on state and local governments by the Government Accounting Standards Board and National Academy of Public Administration in the USA in 1997. Both studies looked into the performance measurement practices in the public sectors. Therefore, this study adopting a survey approach using questionnaires developed partly based on these earlier studies by Hoque. Within Malaysia, recent studies in regard to performance measurement were done on the private sector by Othman et al. (2004) on the limitations faced by a Malaysian telecommunication company in implementing balanced scorecard (BSC) and Jusoh et al. (2006, 2008a, 2008b) on performance measurements and balanced scorecard usage in Malaysian manufacturing firms. It is hoped that this short exploratory study will promote researchers' interest to investigate further into the issues of adapting and sustaining performance in the Malaysian public sector.

The second motivation for conducting this study is due to increasing efforts taken by the Government of Malaysia in adopting outcome-based performance monitoring and evaluation method on the governments' projects and programs. These efforts emphasizes on outcome/impact instead of processes. In line with this new development, the Malaysian government has also introduced the use of key performance indicators (KPIs) to all ministers which has resulted in the creation of a new unit called 'Unity and Performance Unit' under the Prime Minister's Department. It is therefore timely to examine if the BSC or its distinguishing characteristics can be used as an effective performance measurement and management tool for the government sector especially its application in the government of Malaysia.

Hence, focusing on the Malaysian public sectors, this paper attempts to answer the following questions related to the design, implementation, uses, and benefits as well as shortcomings of performance measurement system:

1. How is the performance measurement being designed?
2. How is the performance measurement being implemented and used?
3. What are the benefits and important aspects of successful implementation of performance measurement system?

LITERATURE REVIEW

Evolution of Performance Measurement

The concept of performance management has been going through a gradual change over the years. Performance measurement is defined as management and control systems that produce information to be shared with internal and external users (Henri, 2004). Furthermore, as it encompasses all aspects of the business management cycle, performance measurement constitutes a process for developing and deploying performance direction (Nanni et al., 1992). Neely et al. (1995) view performance measurement as the process of quantifying the efficiency and effectiveness of action while the performance measure represents the metric used to quantify the efficiency and/or effectiveness of this action. Performance measurement based on traditional cost or management accounting system that was introduced in early 1900s is more for fulfilling the requirement of external reporting and government (Johnson & Kaplan, 1987). Johnson and Kaplan (1987) argued that traditional performance measurement systems focus too heavily on the accounting or financial based measures and tend to ignore the non-financial measures. In other words, no or less emphasis is given on long-term value creation, particularly for the intangible and intellectual assets, that generate future growth to the organization. This is because these intangible assets could not be easily quantified in terms of financial or monetary values. Managing organization's intangible assets such as customer relationships, innovative products and services, high-quality and responsive operating processes, and employee capabilities and skills can only be done through the use of non-financial measures.

Accordingly, during the last two decades, an increasing number of companies have implemented performance management systems (PMS) that are based on critical success factors (CSF) and key performance indicators (KPI). Organisations, especially those in the private sector, have implemented a number of broader performance measurement and management system (PMS) tools such as Activity-Based Costing/Management (ABC/M), Benchmarking, Total Quality Management (TQM), Business Process Reengineering (BPR) and arguably the so-called best tool, the Balanced Scorecard (BSC). In a recent survey, Rigby (2003) reported that the BSC is one of the key "compass setting" tools used by managers. Lingle and Schiemann (1996) describe the results of a study that confirms that companies who balance financial and non-financial measurements, but also link strategic measures to operational ones, update their strategic scorecard regularly and clearly communicate measures and progress to all employees, are better performers. Surveys among corporate executives conducted by the consulting firm Bain and Company revealed that by 2004, 64 percent of their respondents in North America and 57 percent of the respondents worldwide were using BSCs in their companies (Rigby and Bilodeau, 2005).

Increasingly, managers have found value in monitoring indicators other than the financial measures. A recent survey of senior executives reveals that short-term financial measures rank fifth behind four non-financial measures in terms of perceived importance (Ittner and Larcker 2001). Atkinson et al. (1997, 25) also conclude that "performance measurement systems based primarily on financial performance measures lack the focus and robustness needed for internal management and control". This is because the information developed using traditional performance measurement framework for external users is inadequate and insufficient for internal users. The perceived restrictions of traditional accounting-based measures are

numerous of which Ittner and Larcker (1998a) listed eight most common limitations, namely, too historical and “backward-looking”, lack of timely signals, lack of predictive ability to explain future performance, reward short-term or incorrect behaviour, lack of actionability, too aggregated and summarized to guide managerial action, reflect functions instead of cross-functional processes, and give inadequate guidance to evaluate intangible assets.

Traditional financial ratios have worked as important tools of measuring organisational performance in the past. Kaplan and Norton (1992, 71) suggest that they “worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today”. Their relevance in the information age where the market has no boundary and organisations are competing for talents is questionable. The situation may worsen when the firm is compelled to pursue short-term goals at the cost of the organisation’s long term objectives (Anand, Sahay, & Saha, 2005). Eccles, (1991) felt that the leading indicators of business performance cannot be found in the financial data alone.

Performance Measurement in Public Sector Organisations

‘New public management’ discussion surrounds only one key word, which is ‘performance’ (OECD, 1993: p.7). Performance has been the agenda for new way of doing business in the public sector and that involves paradigm shift towards entrepreneurial government (Osbourne and Gaebler, 1993). Thus, public sector nowadays needs to be managed like their business counterpart. However, the design of performance indicators in both private and public sectors are very difficult to match because performance is a broad concept which has various meanings for different audience in a different context (Carter, 1991). Nevertheless, managers of public sector have to face a number of performance measurement-related challenges resulting from the new public management initiative. Public agencies are becoming more aware of their necessity to develop and implement practices and procedures that will make them more business-like (Dixon, Kouzmin and Korac-Kakabadse, 1998). Governments around the world are under pressure to control their costs and improve their services. They are expected to be responsive and accountable not only to their departmental secretary, minister and parliament but also to client groups in the marketplace, even when their respective interests are in conflict (Dixon, Kouzmin and Korac-Kakabadse, 1996).

US Comptroller General David M. Walker, in testimony to a US Senate subcommittee on how to improve the federal government's approach to managing its people, noted that the landmark federal management reforms of the 1990s signaled the arrival of a new era of accountability for results (Walker, 2000). The US federal government will have to go beyond a zero tolerance for waste, fraud and abuse and create a government that is better equipped to deliver efficiently, economically and effectively on its promises to the US people. Randor and Lovell (2003) believe that there is a need to reinforce accountability, so that they are clearly held accountable for the resources they use and the outcomes they achieve. In response, government administrators have begun introducing changes and implementing modern private sector management tools in their organisations to deal with the financial constraints and increasing demand in terms of accountability to stakeholders (Ho & Chan, 2002).

According to the World Bank’s Independent Evaluation Group’s report, growing number of governments are working to improve their performance by creating systems to measure and help them understand their performance (Mackay, 2007). These monitoring and evaluation (M&E) systems are used to measure the quantity and quality of the goods and services (i.e. the outputs) that the state provides and to measure the outcomes and impacts resulting from these outputs. The M&E systems are also a medium to facilitate understanding of the causes of good and poor performance. The report highlights the various whole-of-government M&E initiatives around the world (some which are named differently) such as in the Australia, Chile, Colombia, United States (Program Assessment Rating Tool, PART), the United Kingdom (Public Sector Agreement), South Africa, Uganda (National Integrated M&E System) etc. Niven (2002) among others has been actively working with a number of local authorities in balanced scorecard implementation such as the City of Charlotte and Transport Department of Michigan, USA. In European countries such as the United Kingdom, Finland, the Netherlands and Sweden, performance measurement has been implemented rather pervasively as reported by Pollit (2005). Pollit emphasizes that the UK’s public sector has had the

strongest history on performance measurement and that performance measurement has become almost universal in the northwestern European governments and it goes well beyond rhetoric and into practice.

However, there are underlying differences between the private sector and the government sector. Private sector and government sector organisations organize functions differently, because their budgeting processes, regulatory and accountability regimes are different (Dixon, Kouzmin and Korac-Kakabadse, 1998). Consequently, priority objective would have been different too as the “financial” perspective (which is understandably the most important aspect of a profit oriented organisation) cannot be a bottom-line objective for government organisations, but rather may provide a constraint by limiting spending to budgeted amounts (Kaplan & Norton 1996: pp.179-80). Two important features of the public sector are:

- i) bureaucrats often serve several masters which include services’ users, services’ payers, politicians and professional organizations;
- ii) the consequence of serving different masters resulting in the bureaucrats often have several ends to achieve, i.e. they are often expected to increase both efficiency and equity when delivering services to the public (Dixon, 2002).

Steven Van de Walle (2007) highlights that the main problem of measuring public sector performance lying on a conceptual instead of measurement. It is a conceptual problem because in order to measure government and government performance, you first have to define government and agree on its objectives. Failure to define those areas would render the measuring effort as technically correct, but at the same time meaningless. Objectives, as in most cases of governments in the world, may not be revealed – objectives may be contradictory, or policy makers may just not know what exactly their objectives are. When conflicting and/or vague objectives is an essential feature of governing, measuring government performance will be merely a political exercise at best.

Balanced Scorecard (BSC) in Public Sectors

Kaplan and Norton (1992) define the "balanced scorecard" (BSC) as a set of measures that gives top managers a fast but comprehensive view of the business. The BSC includes financial measures that tell the results of actions already taken which is then complemented by the operational measures on customer satisfaction, internal processes, and the organisation's innovation and improvement activities. They identified the operational measures as the drivers of future financial result. Basically, a scorecard can be considered “balanced” if it contains financial and non-financial measures, driver and outcome measures, tangible and intangible measure and internal and external constituents.

Niven (2003) describes a BSC as a carefully selected set of quantifiable measures derived from an organisation’s strategy. Strategy is an integral element of a BSC framework which suggests that the foundation of measuring organisational performance should be derived from its vision and strategy. Therefore, any measurements chosen within the four perspectives (financial, customer, internal processes, and learning and growth) should be able to explain the level or extent of achievement of the strategy. In linking strategy to balanced scorecard, it is important to translate strategy into measurable achievement so that it can help to guide the organisation in explaining those typically mouthful words into simple and achievable adverbs and nouns (Kaplan and Norton, 1996). Hence, this study attempts to explore the extent to which performance measurement in the public sector is being developed based on their strategy.

Despite some underlying differences between the private and the government sector, government organisations are increasingly recognizing the BSC as an important performance measurement and management tool. They are also looking for appropriate performance measurement systems to ensure employees are rewarded for good performance. Effective performance management requires fact-based decision making and one of the first requirements is relevant and reliable data. With multiple perspectives (one of the important elements of the current version of the BSC) data at hand, government agencies can show the outcomes and effects of their efforts as real as possible, and taxpayers can judge the agencies'

accomplishments across a range of measures and decide whether they are getting the best possible service value for their tax dollars.

Apparently, there has been very little research done on how a standard BSC (originally developed for the private sector), can be effectively applied in the public sector. The effective use of the BSC in the public sector as a performance measurement and management tool represents a gap in the literature (Chan, 2002). Major concern would be on the potential adjustment to the BSC should it be adopted in a public sector. Potential adjustment to the structure of the BSC and the use of composite measures in evaluating an organization is worth to be discussed further.

Structure of BSC

There are some obvious weaknesses of the current version of the BSC when it is applied in the government sector especially with regard to its design and structure. The differing objectives of the government sector indicate some problems of the application of the current version of the BSC in government organisations. Government organisations often place their customers or constituents (not the financials) at the top of their strategy maps (Kaplan & Norton 1995, p.79). But the current version of the BSC fails to provide a blueprint as to how other perspectives (learning and growth, internal business process and financial) may ultimately influence and affect customers.

A clear distinction between the private and the public sector is that in the private sector, it is the customer who pays for the service and receives the service (Kaplan & Norton 2001, p.134). In the public sector, however, the customers or citizens do not necessarily pay for the service they receive (or perhaps pay only proportionately). In other words, the citizens do not receive service in direct proportion to their tax payments and any form of fiscal contribution. Therefore, unlike the private sector, the “financial” perspective is not the bottom-line objective for government organisations (Kaplan & Norton 1996, pp.179-80), but customer perspective is. Hence, in a causal relationship manner, it is very important that a BSC translates all relationships into customer satisfaction but not necessarily into financial success. In fact, in the government sector, it is most often that financial success leads to customer satisfaction (as contrasted with the private sector, where customer satisfaction usually leads to increased revenue).

This has been clearly experienced by the City of Charlotte, USA as highlighted by Kaplan & Norton (2001, p.138) where they placed the customer perspective at the top of their corporate scorecard. They experienced that financial objectives became the enablers for helping the city to achieve its customer objectives by ensuring that the city’s services such as sewage treatment, garbage collection, city cleanliness etc are delivered at a reasonable price. They also have seek competitive funding from external partners while maintaining a solid and sustainable tax base and credit ranking in order to fund high-priority projects towards providing better service delivery. All these financial objectives led them to a higher customer satisfaction. The BSC can be effective in the government sector, if and only if, the current perspectives are rearranged as shown in Figure1.

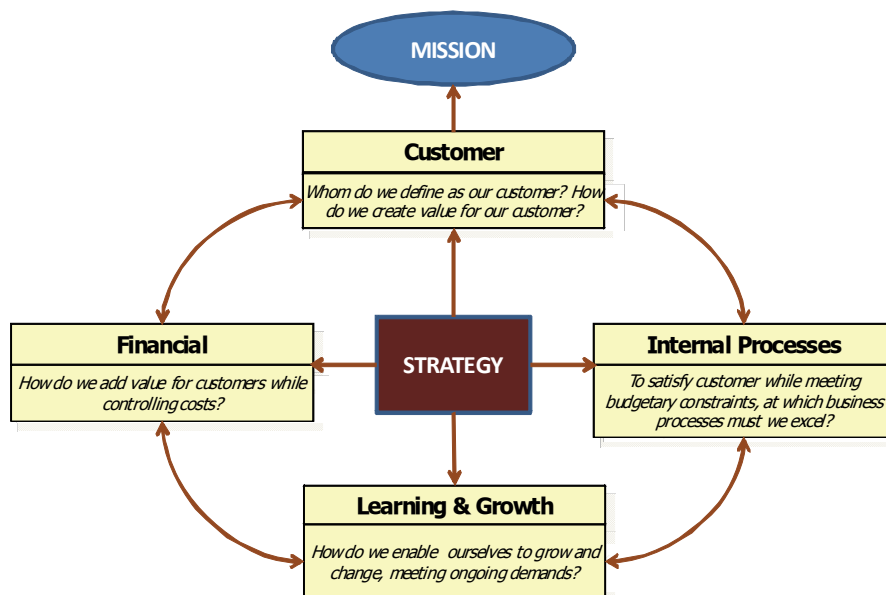


Figure 1: Rearrangements of balance scorecard for public sector

According to Niven (2003), the four perspectives of the current version of the BSC can still be applied in public sector as long as they are rearranged according to governmental priorities. The primary intention of a government agency is to serve the people; hence its main reason for existence or its mission would be at the top of every other objective. The strategy still remains at the focal point of the perspectives however, meeting the people's or customers' expectations is now considered to be the most critical perspective among the four in determining whether the agency has accomplished its mission or otherwise. Another consideration as suggested by the revised framework above is on the rephrasing of the strategic questions to suit the public sector environment. These considerations, if positively dealt with, may contribute to employee satisfaction, superior employee performance, sound internal business process and in turn, may lead to efficient stewardship of taxpayers' dollars which may eventually lead to achieving the main objective - absolute customer satisfaction. In conclusion, in the light of the above observations, it is clear that some modifications are needed to the current version of the BSC albeit having a similar set of performance perspectives for it to be used in the public sector. This study attempts to investigate the design and structure of performance measurement in the public sector in terms of its strategic alignment and balanced characteristics.

RESEARCH METHODS

Sample and Survey Procedure

There are more than 900 federal and state government agencies throughout Malaysia. According to listings by federal government ministries and agencies in the website, there are approximately 77 ministries and federal government agencies having headquarters in Putrajaya. The scope of this study was limited to the government agencies having their head offices at Putrajaya in view of the vast locations and respondents which may include many groups and sub-groupings. This would be more practical and achievable given the time and resource constraints of the study. Furthermore, the questionnaire designed demands responses from the senior executives and most senior executives normally are positioned at the head offices in Putrajaya. Concurrent with time constraint and position of the participants, the questionnaires were administered personally to respondents' offices in Putrajaya. All respondents were assured that their responses will be treated confidential; the cover letter states that 'only aggregates will be used for the research and that no individual organisation will be linked to specific responses'. The cover letter also states that filling up of personal information at the end of the questionnaire is optional. Out of 73 questionnaires sent out, only 51 were returned (70 percent), seven via fax and the rest were personally collected.

Respondents' Profile

Demographic information of the respondents is presented in Table 1. Majority responses obtained were from the divisional level (38 respondents, 74.5 percent), followed by sectoral (12 respondents, 23.5 percent) and organisational level (1 respondent, 2 percent). The respondents were divided into three position groupings: Senior Management, Middle Management, and others. There are 28 males respondents as compared to 20 females, while 3 respondents' data were missing. Forty seven respondents (92.2 percent) have been in the government service for 12 years and above and among them, 24 (47.1 percent) respondents have been with the same unit between 2 to 4 years. Twenty four of the respondents (47.1 percent) have a university degree while 21 of them graduated with a master's degree.

Table 1: Respondents' Profile

	Frequency	Percentage
Levels in organization		
Entire organization	1	2
Sector	12	23.5
Division	38	74.5
Total	51	100.0
Post		
Senior Management	6	11.8
Middle Management	24	47.1
Others	14	27.5
Missing	7	13.7
Total	51	100.0
Gender		
Male	28	54.9
Female	20	39.2
Missing	3	5.9
Total	51	100.0
Tenure		
1 year and below	6	11.8
2 years – 4 years	24	47.1
5 years – 7 years	11	21.6
8 years – 10 years	5	9.8
11 years and above	2	3.9
Missing	3	5.9
Total	51	100.0
Qualification		
Diploma	0	0
Degree	24	47.1
Masters	21	41.2
Ph.D.	2	3.9
Professional qualification	1	2.0
Missing	3	5.9
Total	51	100.0

Questionnaire Design

The questions in the questionnaire were formulated after a lengthy review of the literature in performance measurement and balanced scorecard. A total of 35 questions derived selectively from various previous researches such as Hoque and Adams (2008), Kald and Nilsson (1999), and Marr (2005). Majority of the questions were adapted from Hoque and Adams (2008). The questionnaire is broadly divided into three sections, namely: Strategy, Performance Measurement, and Respondent's Background. Strategy section gives the respondents an opportunity to present his/her understanding of his/her unit's strategy and its

possible relationship with performance measurement system. Performance measurement section deals with questions related to the design, implementation, and use of the PMS in his/her organisation, sector or division. Majority of the questions were being rated on a 5-point Likert Scale where 1= “To a little or no extent”, 2= “To some extent”, 3= “To a moderate extent”, 4= “To a large extent” and 5= “To a very large extent”.

RESULTS

Survey data of this study was analyzed using descriptive statistics to answer the three research questions posed earlier. As the study was an exploratory in nature, analysis using descriptive statistics deems to be sufficient in order to give a general idea about the current state of nature of performance measurement systems practiced in the Malaysian public sector. Therefore, results are presented according to the three research questions.

How is the Performance Measurement Being Designed?

Before the respondents were asked on the specific questions relating to the design of performance measurement, two questions were asked regarding the business performance measurement (BPM) approaches. Out of 44 responded (7 were missing), 41 of them (93.2 percent) said that they had heard and are aware of the balanced scorecard (BSC) approach. In another question asking them whether their performance measurement system is a balanced scorecard, only 7 out of 51 who responded (13.7 percent) say that their performance measurement system is to a large and very large extent resembles a BSC whilst 27 respondents (52.9 percent) reply that their performance measurement systems least likely to resemble a BSC. Among 51 who responded (see Table 2), only five respondents’ organisations (9.8 percent) have actually implemented BSC whilst 28 organisations (54.9 percent) are still in the consideration stage, while 12 have rejected the idea and six have not considered it at all.

Table 2: Business Performance Management (BPM) Approaches

	Percentages				
	Not considered	Considering	Considered then rejected	Implemented	Implemented then abandoned
ISO	3.9	21.6	9.8	62.7	2.0
Six Sigma	26.0	38.0	28.0	6.0	2.0
Activity Based Costing	44.9	12.2	24.5	16.3	2.0
Balanced Scorecard	11.8	54.9	23.5	9.8	
Customised KPIs	2.0	15.7	19.6	62.7	

This study also attempts to find out if the unit is using any other performance measurement approaches than the balanced scorecard. This is because in Marr’s (2005) study, out of 276 respondents, 167 (61.0 percent) are using BSC together with other quality-based approaches such as total quality management, Baldrige, Six Sigma and economic value added (EVA). The results of this study (see Table 2) show that 32 organizations (62.7 percent) have implemented ISO and some sort of a customized KPI system. Eight organizations (15.7 percent) have implemented activity based costing and only 3 (5.9 percent) have implemented six sigma. What is interesting to note is that there is one respondent from each of those who had implemented ISO, Six Sigma and activity based costing had eventually abandoned the approach.

By using cross tab analysis (see Table 3), the result shows that 43.1 and 39.2 percent of those who have implemented ISO and a customized KPI system respectively are also considering implementing BSC. With a

move towards outcome-based performance measurement and in increasing awareness towards employing a balanced set of KPIs, there is a high probability that the public sectors will increasingly adopt the BSC approach.

Table 3: BSC with other BPM approaches

	Percentages			
	ISO	Six Sigma	Activity Based Costing	Customised KPIs
Considering BSC	43.1	2.0	4.1	39.2
Considered then rejected BSC	7.8	2.0	8.2	9.8
Implemented BSC	2.0	2.0	4.1	5.9

On the specific questions concerning the design of performance measurement system, questions relating to the extent of performance measures being derived from the organisational strategy and the extent to which performance measures are used in a balanced manner in accordance to the BSC approach were asked (see Table 4 and Table 5).

Table 4: Performance measurement design – Derived from strategy

Performance measurement design – Derived from strategy	Percentages			
	Little or no extent	Moderate Extent	Large and Very large extent	Mean
Our unit's strategy is officially documented	11.8	37.3	51.0	3.45
Our unit's organisational strategy is well understood by employees	25.5	49	25.5	2.98
Our unit's operational strategy is influenced by organisational strategy	13.7	23.5	62.7	3.90
Our unit's Key Performance Indicators (KPIs) are derived from the unit's organisational strategy	13.7	47.1	39.2	3.25
We review and reassesses the KPIs used by our performance measurement system whenever our unit's strategy changes	33.3	37.3	29.4	2.98

As shown in Table 4, there are five questions relating to performance measurement design-derived from strategy. Results show that 51 percent of respondents declare that their unit's strategy is officially documented, while 62.7 percent of respondents feel that their operational strategy is to a large and very large extent influenced by the organisational strategy. The overall mean for performance measurement deriving from strategy is 3.31, hence, it can be deduced that the performance measurement of Malaysian public sectors is to a moderate extent being developed based on organisational strategy. This result somewhat disagrees with the findings by Kald and Nilsson (1999) on 800 business units in the Nordic countries where there is a relatively strong connection between strategic plan and the measures used. This could be perhaps due to the difficulties in translating the strategy into operational and measureable terms within a public sector as strategy is often nebulous and visionary as Kaplan (1996) suggests that strategy can be a foreign concept to a public sector organisation.

Table 5 shows the scores for questions relating to the extent of performance measures being used in a balanced manner in accordance to the approach of the BSC. The evaluations of balanced indicators are in terms financial vs. non-financial, input vs. output, driver vs. outcome measures as well as internal vs. external constituents. In addition, balanced indicators should reflect the multidimensional nature of performance measurement.

Table 5: Performance measurement structure – Balanced

Performance measurement dimension – Balanced	Percentages			
	Little or no extent	Moderate Extent	Large and Very large extent	Mean
Output	29.4	11.8	58.8	2.29
Cost & processes efficiency & quality measures	33.3	41.2	25.5	1.92
Activity/process	11.8	27.5	60.8	2.49
Customer satisfaction	13.7	49	37.3	2.24
Outcomes	47.1	37.3	15.7	1.69
Financial	9.8	54.9	35.3	2.25
Inputs	19.6	35.3	45.1	2.25
Learning and growth	41.2	45.1	13.7	1.73
Socially and environmentally related measures	60.8	31.4	7.8	1.47
Innovation	58.8	29.4	11.8	1.53

As shown in Table 5, all the ten performance measurement dimensions are used only to some extent by the Malaysian public sectors (mean scores are below 3.0). However, among the 10 dimensions, activity/process measures are used most extensively (mean= 2.49), followed by output measures (mean= 2.29), financial measures (mean= 2.25), inputs measures (mean = 2.25), and customer satisfaction measures (mean = 2.24). Majority of the respondents reported that they use activity/process measures (60.8 percent) and output measures (58.8 percent) to a large and very large extent. The findings on output and activity/process measures are quite similar to the findings reported by Hoque and Adams (2008) in the Australian government. As expected, socially and environmentally related measures (mean = 1.47) and innovation related measures are used least by the Malaysian public sectors. The former is reported to have been used to a little or no extent by 60.8 percent of respondents and the latter by 58.8 percent. The mean score for all 10 dimensions is 2.94, and therefore, it can be concluded that Malaysian public sectors use balanced performance measures only to some extent. It seems that the measurements are to some extent being balanced between financial and non-financial indicators because the financial measurements are being used to some extent (mean= 2.25), while other non-financial performance measurement dimensions such as customer satisfaction and process efficiency and quality are being used to some extent too.

In addition, from the mean scores, the results also indicate that there seems to be a somewhat balanced set of performance measurements between input and output indicators as both types of measurements are being used to large and very large extent by 45.1 percent and 58.8 percent of respondents, respectively. This could be due to the current Malaysian government initiative of implementing Annual Work Target which was enhanced in 2002 (JPA, 2002) that requires every public servant to plan and document all core and non-core activities and deliverables to be accomplished for that particular year which include planned budgets, manpower, activities and trainings. However, with regard to input measures, this finding is quite different from Hoque and Adams's (2008) study whereby inputs and learning and growth measures were the least used in the Australian government.

Not surprisingly, the least used performance measurement dimensions are socially and environmentally related measures (mean= 1.47), measures on innovation (mean= 1.53) and outcomes measures (mean= 1.69). An outcomes measure is defined as the measure that tracks the benefit received by stakeholders as a result of the organisation's operations (Niven, 2002). Outcome measure relates to the achievement of the organisation's overall goals such as reduced incidence of HIV, increased perception of public safety etc. The low percentage of usage of outcome measures among Malaysian public sector might not augur well with the aspiration of the Chief Secretary to the Government to institute outcome measurements in evaluating the achievement of the Ninth Malaysian Plan.

Another possible balanced set of indicators are between a driver and an outcome indicators. A driver indicator is a measure that leads to the achievement of outcome indicators and often includes the measurement of processes and activities (Niven, 2002). Since this study shows an extensive usage of inputs, activities as well as a moderate use of efficiency and quality measures as compared to outcome measures, therefore, we can fairly deduce that the public sector performance measurement system is seemingly lacking in terms of balanced driver-outcome indicators.

The last aspect of a balanced set of measurements is from the perspective of internal vs. external stakeholders (Kaplan and Norton 1992; 1996). From our results, internal related measurements such as inputs, financial, activity/process, as well as output, are being used to a larger extent as opposed to external related measures. Except for customer satisfaction that were reported to have been used to a moderate extent (49.0 percent), other external related measures such as outcomes (47.1 percent) and social and environmental (60.8 percent) related measures have been used to little or no extent. Therefore, it seems that the Malaysian public sector has been measuring their achievement based most on internal yardstick instead of taking the cues from the stakeholders, customers or the public.

To explore further on the use of socially and environmentally related measures, respondents were asked to rate on the extent of use of nine socially and environmentally related measures as shown in Table 6.

Table 6: Social and environmental related performance measures

Performance measurement structure – Social and Environmental related performance measures	Percentages			
	Little or no extent	Moderate Extent	Large and Very large extent	Mean
Employee diversity	86.3	9.8	3.9	1.18
Economic impacts	54.9	35.3	9.8	1.55
Occupational health and safety	62.7	21.6	15.7	1.53
Stakeholder involvement in community, social and environmental issues	54.9	19.6	25.5	1.71
Community relations	60.8	23.5	15.7	1.55
Employee satisfaction	9.8	74.5	15.7	2.06
Other community, ethical, social and environmental issues	60.8	19.6	19.6	1.59
Natural resource conservation and emission levels	70.6	19.6	9.8	1.39

The mean score of overall nine social and environmental related measures is 2.28 suggesting that the social and environmental related measures are only being used to a little or no extent by the Malaysian public sectors. Among the nine measures, employee satisfaction measures received the highest mean score (2.06) with 74.5 percent of the respondents used these measure to a moderate extent. Interestingly, employee diversity measures received the lowest mean score with 1.18 and were used to little or no extent by 86.3 percent of the respondents. This is particularly interesting given the racial composition in the public sector has been a hot and sensitive issues debated recently (Ahmad, 2007; Abdullah, 2008). Ahmad and Abdullah wrote that according to the Public Services Commission's (PSC) statistic, only 1.78 percent of Chinese and 2.5 percent of Indian had applied to join the public sector in 2006 out of 486,802 total applicants. This goes to show how unpopular the work in public sector is to the non-Malays. According to Tan Sri Ismail Adam, the Director General of Public Service Department (PSD), his department and the PSC have been relentlessly doing their level best to eliminate the racial gap in the public sector (Ahmad, 2007; Abdullah, 2008). This survey however, shows that employee diversity is not one of their key indicators.

Another interesting observation from the results shown in Table 6 is on the usage of natural resource

conservation and emission level measure. A mean score of 1.39 suggests that they have little or no extent of use of the said measure. As alarming as it might suggest, the study by Hoque and Adams (2008) also reveals similar pattern. As part of government's efforts to preserve the environment, the new Prime Minister has taken the lead in restructuring the Ministry of Energy, Water and Communication into Ministry of Energy, Green Technology and Water effective 9 April 2009 (Prime Minister's Office, 2009). With the new name, perhaps there will be more attention and importance given to the natural conservation measures.

Another social and environment related measure that is worth mentioning is the low attention given to the economic impact measures (mean = 1.55). Being one of the key tenets in the New Economic Policy as well as in the Ninth Malaysia Plan, one would expect quite a number of ministries, departments and agencies would be addressing the eradication of hard core poverty, reducing overall poverty, tackling the socio-economic inequalities and bridging the income gap between rural and urban area as well as among races.

How is the Performance Measurement Being Implemented and Used?

Several questions relating to performance measurement implementation and use were asked. The following sub-sections discuss the management/employee participation and communication channels involve in performance measurement system implementation as well as recording, updating and analysis of performance data involved. As part of performance measurement implementation and use, questions about the purposes and users of reports generated from the performance measurement system as well as its specific uses were also asked.

Participation and Communication Channels

Table 7 looks into the intricacies of deployment activities of performance management initiative that entails participation of various functional areas during performance measurement development and the communication channels employed. With regard to participation in the implementation process, the senior management team comprising those in the corporate planning, services & operations as well as the policy groups are to a large and very large extent involved in development of performance measurement (mean = 3.59). Results also indicate that 62.7 percent of the respondents have reported use of information sessions (mean, 3.86) and 60.8% have used memo (mean = 3.69) as their major communication channels to a large and very large extent.

Table 7: Participation and Communication Channels

	Little or no extent	Moderate Extent	Large and Very large extent	Mean	Valid N	Missing N
Participation in the development	Percentages					
Accounting / Finance	43.1	41.2	15.7	2.67	51	0
Policy	9.8	37.3	52.9	3.59	51	0
Human Resources	31.4	47.1	21.6	2.88	51	0
Corporate Planning	15.7	25.5	58.8	3.59	51	0
Services / Operations	9.8	31.4	58.8	3.59	51	0
Information Technology	41.2	43.1	15.7	2.76	51	0
Communication	Percentages					
Brochures	74.5	9.8	15.7	1.92	51	0
Newsletter	35.3	31.4	33.3	2.92	51	0
Memo	11.8	27.5	60.8	3.69	51	0
Information sessions	5.9	31.4	62.7	3.86	51	0
Organisation unit's website	64.7	25.5	9.8	2.02	51	0

Recording, Updating, and Collecting Performance Data

The survey also asked the respondents to indicate the extent of use of methods or system to track, record, and collect data for performance measurement. The results are as shown in Table 8. The results indicate that spreadsheet application is being used to a large and very large extent (47.1 percent; mean, 3.18) as compared to ERP and specialized packaged PMS which are the being used to a little or no extent. The dominant method of data collection is found to be through manual basis where 51.0 percent (mean = 3.33) have used it to a large and very large extent such as via hardcopy or email submission of spreadsheet and words document.

Table 8: Recording, Updating, and Collecting Data

Recording, updating and collecting data	Little or no extent	Moderate Extent	Large and Very large extent	Mean	Valid N	Missing N
Method / system	Percentages					
Spreadsheet applications	33.3	19.6	47.1	3.18	51	0
Enterprise Resource Planning (ERP) system	72.5	19.6	7.8	1.73	51	0
Specialised packaged performance measurement system	49	35.3	15.7	2.33	51	0
Custom-built applications environmental issues	39.2	45.1	15.7	2.51	51	0
Data collection method	Percentages					
Manual	23.5	25.5	51	3.33	51	0
Batch interface	45.1	41.2	13.7	2.57	51	0
Online	64.7	27.5	7.8	1.98	51	0

The highly use of spreadsheet applications and manual data collection indicates that the level of use of IT and information system sophistication (ISS) is still low among many Malaysian public agencies. Classe (1999), for example, noted that simple spreadsheet tools might be sufficient at the initial stage of implementing PMS, but to make the method an integral part of the strategic performance measurement and management, automation will usually be necessary. Bernard Marr (2005) reports in his study that even though 45 percent of respondents use spreadsheet applications, such as Microsoft Excel, as the prime tool for the business performance measurement and management (BPM) activities, the users are not satisfied with their spreadsheet applications as 18 percent felt that they worked poorly as tools to measure and manage performance.

The lack of suitable IT platform could be due to the cost of acquiring ERP that might run into millions of ringgit as according to Spathis and Constantinides (2003), the cost is not correlated to the sum of benefits of its implementation. This finding aggravates the concern stated earlier about the issue of changing or rotating the staff assigned to collecting, analysing and reporting performance measurement. Without a standard process supported by an established IT platform and dedicated staff, there could be a further challenge in monitoring and evaluating governance that could go undetected and might jeopardize the whole integrity and sustainability of the PMS initiative.

To make matters worse, online collection method for performance measurement data is still not prevalent among public sector as 64.7 percent (mean, 1.98) say that they use to a little or no extent of such method. Shaman and Kavan (1999) observe that paper-based measurement systems are too slow, cumbersome, labour intensive and unreliable. This might just compound the issue of governance as stated above.

Analysis Methods

The questions attempt to find out the extent of analysis done on the performance result. The analysis activity

is very crucial if the results are going to be used regularly by the executive leadership as well as to help staff monitor progress toward intended program or service results. The findings are presented in Table 9. Results show that majority (58.8%, mean = 3.55) of respondents use qualitative analysis to validate their data through interviews and personal observations. Knowing that there is a lack of technology enabler that is supporting the data collection and recording as found earlier, thus validation tool using interviews and observation is justifiable.

With regard to the role of performance data in benchmarking activities, the results reveal that performance data are often being benchmarked with the established targets (68.6 percent, mean = 4.06), the national standards or guidelines from federal agencies and/or professional groups (62.7 percent; mean, 3.60), prior periods (41.2 percent; mean, 3.26) and with established thresholds (41.2 percent; mean, 3.18). The overall mean for Analysis is 2.97 which imply that the performance measurement result analysis has only been done in a little extent. These findings are almost similar to Hoque and Adams' (2008) survey that the Australian government uses prior periods (75.0 percent; mean, 3.77) and established targets (60.0 percent; mean, 2.62) as their main benchmarks.

The qualitative analysis may not be suitable in most situations as empirical data need to be collected from district, state and departmental levels for purpose of analysis. This finding would reflect that many government agencies do not actually have a robust qualitative analytical tool, well-defined methodologies and IT platform to facilitate them in project measurement/evaluation especially those with multi-billion worth of projects.

Table 9: Analysis

Analysis	Little or no extent	Moderate Extent	Large and Very large extent	Mean	Valid N	Missing N
Validation tool	Percentages					
Statistical analysis (e.g. regression, correlation)	66.7	23.5	9.8	2.16	51	0
Qualitative analysis (e.g. interviews, personal observations)	11.8	29.4	58.8	3.55	51	0
Validation of relationships between measures are done	39.2	27.5	33.3	2.98	51	0
Benchmarking data	Percentages					
With prior periods	23.5	35.3	41.2	3.26	51	0
With established targets	5.9	25.5	68.6	4.06	51	0
With established thresholds	27.5	31.4	41.2	3.18	51	0
With national standards or guidelines from Federal agencies, and/or professional groups	15.7	21.6	62.7	3.60	51	0
With other programs/agencies of other governments	51	25.5	23.5	2.46	51	0
With other programs/agencies within your governments	60.8	19.6	19.6	2.42	51	0
With private sector organisations	60.8	23.5	15.7	2.10	51	0

The following sub-sections also discuss about the implementation and use of performance measurement system with respect to the users/recipients of the performance measurement reports, the reporting purpose and the specific uses of performance measurement system in the Malaysian public sector.

Users

From Table 10, majority of the respondents reveals that from large to the very large extent, the recipients of the performance measurement reports have been the Implementation Coordination Unit (ICU) (52.9 percent,

mean = 3.43) and followed by Economic Planning Unit (EPU) (49.0 percent, mean = 3.43). Other users are the operating managers (39.2 percent, mean = 3.10) and elected officials (37.3 percent, mean = 2.84). This result is understandable because ICU and EPU are two of the four central agencies under the Prime Minister's Office who are involved in planning the country's and policy direction as well as monitoring the physical development throughout the country. Hence, as a large percentage of measurements consist of input, activity/process and outputs, the results would have been useful for EPU and ICU.

Surprisingly, Ministry of Finance has had little to no extent of use of the performance report. This might be due to the availability of an automated finance systems like the Electronic Budget Planning and Control System (e-SPKB) and the Standard Accounting System for Government Agencies (SAGA) that link finance divisions of each ministry and agency to the Ministry of Finance and Auditor General's Office, hence reducing the need for additional finance related measures.

Table 10: Users

User	Percentages			Mean	Valid N	Missing N
	Little or no extent	Moderate Extent	Large and Very large extent			
Finance Ministry	49	27.5	23.5	2.71	51	0
Public service department	13.7	56.9	29.4	3.16	51	0
Economic Planning Unit	23.5	27.5	49	3.27	51	0
Implementation & Coordination Unit	15.7	31.4	52.9	3.43	51	0
Parliament	31.4	49	19.6	2.84	51	0
Program managers	7.8	52.9	39.2	3.33	51	0
Elected officials	31.4	31.4	37.3	2.84	51	0
Operating managers	21.6	39.2	39.2	3.10	51	0
Financial managers	17.6	56.9	25.5	3.12	51	0
Budget analysts	37.3	39.2	23.5	2.71	51	0
Citizens	58.8	19.6	21.6	2.47	51	0
Media	51.0	29.4	19.6	2.57	51	0
Human resource managers	45.1	41.2	13.7	2.65	51	0
Sustainability, environmental or social responsibility managers	60.8	27.5	11.8	2.02	51	0

There were 58.8 percent and 51 percent of the respondents respectively declare that the citizen and media have little use of the performance report. These results however are somewhat different from Hoque and Adam's findings on the Australian government whose 60 percent of respondents replied that the reporting outputs are for the citizens and media. Does this show that the Australian government practices a more open and transparent administration than the Malaysian government? Or does it mean that our citizens are less concern about our right? This study does not have the answer for either question but based on the results, the Malaysian public sector could have been more transparent in its performance reporting especially on issues related to environmental sustainability and social responsibility in order to prevent any environmental mishaps like landslides or cracked highways from happening. In a study conducted by Pollitt (2005) on the European governments, the respondents cited that the only regularly active external scrutiny seemed to occur when state agencies are engaged in commercial activities with private sector.

Reporting purpose

As shown in Table 11, the results indicate that the main purposes of reporting have been to a large and very large extent for internal managerial control (68.6 percent, mean = 3.92) and followed by budget execution (45.1 percent, mean = 3.37). This result substantiates the remark by Pollit (2005) that performance measurement and management system is carried out by and for managers.

Table 11: Reporting Purpose

Reporting purpose	Percentages			Mean	Valid N	Missing N
	Little or no extent	Moderate Extent	Large and Very large extent			
External financial reporting	51	25.5	23.5	2.71	51	0
Internal managerial control	5.9	25.5	68.6	3.92	51	0
Budget preparation	19.6	52.9	27.5	3.10	51	0
Budget execution	13.7	41.2	45.1	3.37	51	0
Legal requirements	68.6	19.6	11.8	1.94	51	0

Uses

On the question relating the uses of performance measurement system, 60.8 percent of respondents use from large to a very large extent the results of performance measures as a basis for taking actions (mean = 3.76), to manage activity or program (mean = 3.59) and for strategic planning (mean = 3.47), while 45.1 percent are using it to a large and very large extent for measuring program and project performance (mean = 3.10). The results also indicate that performance measures are used at a little or no extent to satisfy professional associations (64.7 percent, mean = 1.98), to follow others (62.7 percent, mean = 2.08), to measure goals in relation to community impacts (62.7 percent, mean = 2.33) and to measure environmental goals (60.8 percent, mean = 2.27).

Table 12: Uses

Uses	Percentages			Mean	Valid N	Missing N
	Little or no extent	Moderate Extent	Large and Very large extent			
Measure program and project performance	35.3	19.6	45.1	3.10	51	0
Satisfy legislative requirement(law, ordinance, policy)	47.1	25.5	27.5	2.59	51	0
Manage an activity or program	7.8	31.4	60.8	3.59	51	0
Budget formulation	27.5	49.0	23.5	2.98	51	0
Taking actions based on the results	9.8	29.4	60.8	3.76	51	0
Budget execution	13.7	47.1	39.2	3,31	51	0
Strategic planning	17.6	21.6	60.8	3.47	51	0
Satisfy community expectations	47.1	23.5	29.4	2.76	51	0
Social responsibility goals	47.1	25.5	27.5	2.67	51	0
Goals in relation to local community impacts	62.7	23.5	13.7	2.33	51	0
Environmental goals	60.8	25.5	13.7	2.27	51	0
Satisfy professional associations	64.7	23.5	11.8	1.98	51	0
Punish or reward staff	35.3	43.1	21.6	2.94	51	0
Follow others	62.7	21.6	15.7	2.08	51	0

What are the benefits and important aspects of successful implementation of performance measurement system?

Benefits

Performance measurement has promised many benefits since Argyris (1977) claims that performance measurement should contribute to a better understanding of how business works. In this survey, we attempt to identify the extent of benefit of the performance measures that are being used in various managerial

activities. Performance measurement system seems to provide benefit largely in improving programmes/service quality (56.9 percent; mean, 3.51), cross agency cooperation /coordination (56.9 percent; mean 3.41), increasing awareness of factors that affect performance results (54.9 percent; mean 3.71), increasing awareness of and focus on result (54.8 percent; mean 3.24) and improving effectiveness of agency programmes (52.9 percent; mean 3.41). The least benefits expected from the performance measurements are to reduce environmental effect (58.8 percent; mean 2.39), changing appropriation level (56.9 percent; mean 2.27), changing the questions the legislators ask government managers or executives (54.9 percent; mean 2.49) and communicating with the public about performance (52.9 percent; mean 2.57).

Table 13: Benefits

Benefit s	Percentages			Mean	Valid N	Missing N
	Little or no extent	Moderate Extent	Large & Very large extent			
Increasing awareness of and focus on results	31.4	13.7	54.9	3.24	51	0
Increasing awareness of factors that affect performance results	13.7	31.4	54.9	3.71	51	0
Improving responsiveness to customers	13.7	39.2	47.1	3.41	51	0
Improving programs/service quality	15.7	27.5	56.9	3.51	51	0
Communicating with the public about performance	52.9	27.5	19.6	2.57	51	0
Improving effectiveness of agency programs	17.6	29.4	52.9	3.41	51	0
Changing strategies to achieve desired results	11.8	45.1	43.1	3.37	51	0
Changing the substance or tone of discussion among legislators about agency budgets	17.6	41.2	41.2	3.20	51	0
Improving communication with the legislature and legislative staff	49.0	25.5	25.5	2.53	51	0
Changing the questions legislators or their staff ask government managers/executives	54.9	19.6	25.5	2.49	51	0
Reducing duplicating services	19.6	37.3	43.1	3.16	51	0
Changing the substance or tone of discussion among legislators about oversight of agency	43.1	25.5	31.4	2.65	51	0
Improving external government cooperation / coordination	21.6	45.1	33.3	3.12	51	0
Cost savings	15.7	51.0	33.3	3.16	51	0
Improving cross-agency cooperation /coordination	15.7	27.5	56.9	3.41	51	0
Changing appropriation levels	56.9	23.5	19.6	2.27	51	0
Reducing environmental impacts	58.8	9.8	31.4	2.39	51	0

On the question about the important aspects of successful implementation of performance measurement system, results shown in Table 14 indicate that respondents perceived that performance measures that help staff monitor progress toward intended program/ service results (mean=3.72), training for management and staff about performance measurement development and selection (mean=3.54) and communication of purpose (mean=3.52) are most important (see Table 7). They also consider that staff participation (mean=3.44), regular use by executive leadership (mean=3.40) and the adequacy of technology for collecting, analyzing and reporting performance measures (mean = 3.28) as critical to ensure successful

implementation of PMS initiative. These results are quite comparable to those of Hoque and Adam's (2008) study that reveals regular use of performance measures by executive leaderships is the most important, followed by performance measures that help staff monitor progress towards intended program/service results and the adequacy of technology. Consistent with Hoque and Adam's study, results also reveal that additional or changed staffing for collecting, analysing and reporting performance measures is the least important aspect of successful implementation of performance measurement system (mean= 2.42).

Table 14: Important aspects of successful implementation

Important aspect of successful implementation	Percentages			Mean
	Little or no extent	Moderate Extent	Large & Very large extent	
Regular use of performance measures by executive leadership	31.4	15.7	52.9	3.40
Performance measures that help staff monitor progress toward intended program/ service results	7.8	39.2	52.9	3.72
Adequacy of technology for collecting, analyzing and reporting performance measures	25.5	25.5	49.0	3.28
Communication of the purpose for using performance measurement to employees	11.8	33.3	54.9	3.52
Staff participation in the process of developing performance measures	13.7	33.3	52.9	3.44
Training for management and staff about performance measurement development and selection	7.8	37.3	54.9	3.54
A link of performance measures to budget decisions	21.6	41.2	37.3	3.22
Citizen, client/customer or stakeholder interest in government program performance	19.6	43.1	37.3	3.22
Additional or changed staffing for collecting, analysing and reporting the performance measures	56.9	31.4	11.8	2.42
Regular use of performance measures by elected officials	11.8	49.0	39.2	3.28

Shortcomings

The respondents were also asked to state their opinion on whether their current performance measurement system experiences any shortcomings or weaknesses. These shortcomings are expected to hinder the successful implementation of performance measurement system. Table 15 shows the results of shortcomings of performance measurement system as perceived by the respondents.

Table 15: Shortcomings

Shortcomings	Percentages			Mean	Valid N	Missing N
	Little or no extent	Moderate Extent	Large and Very large extent			
Overly focused on the past	70.6	11.8	17.6	2.31	51	0
Overly focused on the short run	21.6	49.0	29.4	3.06	51	0
Overly focused on financial performance	37.3	33.3	29.4	2.84	51	0

Overflow of information	35.3	27.5	37.3	2.86	51	0
Information not available in time	11.8	17.6	70.6	3.84	51	0
Easy to manipulate	35.3	27.5	37.3	3.10	51	0
Too aggregated	35.3	35.3	29.4	3.00	51	0
Imprecise, often provides erroneous information	5.9	25.5	68.5	3.76	51	0

The most obvious shortcomings of the performance measurement are that the information is to a large and very large extent, not available on time (70.6 percent; mean, 3, 84) and imprecise (68.5 percent; mean, 3.76). These results seem consistent with those found in Table regarding the data recording, updating, and collection methods. The overly use of spreadsheet applications and manual data collection indicates that the level of use of IT and information system sophistication (ISS) is still low, hence results in data being not available on time and imprecise. There are 37.3 percent of respondents who say that they have to a large and very large extent too much information and that the information is easy to manipulate.

The KPI results information are very crucial for the analysis activities, hence their absence and possible erroneous facts may impede or taint some critical decisions. Marr (2005) observes that even though excel has been primarily used as data collection and analysis tool, most organizations are not happy with the system. PAIB (2008) also concludes that respondents of their survey are much more satisfied with their performance measurement system if it has the capability for capturing, processing and reporting useful information on both financial and non-financial developments. Therefore, it can be concluded that the use of excel and manual data collection would result in major shortcomings as reported above.

CONCLUSION

The results of the study provide insights into the design of performance measurement system and would have drawn attention to its implementation and usage in the public sector. This study attempts to provide exploratory empirical evidence on how the Malaysian public sectors design their performance measurement system by specifically looking into two aspects: strategic alignment and balanced characteristics. This study found that the public sectors have been to a moderate extent designing their performance measurement system to align to the organisational strategy. Still, the KPIs are found to be less dynamic to reflect the changes in strategy. In examining the balanced nature of performance measurement, this study reveals that there is an overall lack of balanced indicators except for indicators on financial and non-financial such as input, activity and output indicators. Other indicators are not extensively being used such as outcomes, sustainability, innovation, environmental and social responsibility indicators.

As the top echelons of the civil servants are calling attention to outcomes-based evaluation of performance, this survey has established to some extent that they might not be quite ready for the push just yet. A successful adoption of performance measurement system is not just about giving the right training nor having the technology to support it; it is about holistic change which involves the people's readiness and their willingness to embrace and institutionalise a transparent and outcome oriented measurement goals and is accountable to it. The study indicates that there is a need for public sector to take into more serious consideration of the outcomes as well as socially and environmentally related measures and link all measurements up in a causal relationship manner.

The overall findings are nevertheless, subject to several limitations. As the questionnaire demands responses from senior executives in order to elicit the prevailing practice of performance measurement in public sector, this study is not able to claim with full certainty that the responses have been made by the senior executives per se. Perhaps due to higher and more critical work obligation, the task might have been delegated to a more junior officer. Other limitation includes the use of survey to capture perceived subjectivity of an issue. Use of survey will not likely be able to dig deeper into a subject matter and solicit better insights from the respondents. Perhaps, a case-study with face-to-face interviews with a number of senior civil servants at

various central, federal and state level agencies coupled with a time-series performance data would reveal a much more colour to the study.

Given the possible impact of the performance measurement results on the management and individual's reputation, it may also be deemed as sensitive to question the strategy. It may even be construed as questioning the management's capability because the senior management has been actively involved in determining the strategy and KPIs. In addition, since the cultural dimension of management style within the Malaysian Public Sector who are coincidentally, predominantly Malay, who according to Asma Abdullah (1996) have the main work values of "preserving face", hence, it is possible that the act of questioning other people's performance would have been deemed as obtrusive which would have been avoided at all cost and blame the data integrity for the poor performance.

The lack of questioning and analysis may be due to the inside-out practice of choosing performance measurement. This could potentially be detrimental to the implementation initiative as the integrity of the whole system may be questionable. As a result, everyone would be starting to lose faith and interest in the PMS and may decide to abandon the whole initiative, which in the end, would put the whole government machinery at risk.

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STRATEGIC CHANGE IN PUBLIC SECTOR MANAGEMENT IN TURKEY: A BRIEF APPRAISAL

Sefa ÇETİN
Vice Governor of Çorum

ABSTRACT

Profound changes are taking place in governance structures and responsibilities of the countries across the world. Not only the changes occurring in political, economic, social and cultural fields stemming from the globalization process - and in parallel with this, challenges relevant to regionalization, transformation of the state and the localization - but also principles of good governance such as participatory democracy, transparency and accountability are accelerating these changes further. The new regulatory needs arising from the structure, responsibility and rights-sharing, human resources policies as well as communication strategies of public sector institutions generally lead to reforms spreading through time in preference to an overall reform process at one point in time.

Within the scope of these global changes, the reforms realized by several successive governments in Turkey, reflecting the implementation of liberal economic policies and reinforcement of ties with other societies around the world, sustained significant transformations in the public sector. In this context, privatization implementations, regulatory impact analysis, establishment of regional development agencies, resizing the local government structures, abolishing certain local bureaus of the central administration, Public Tender Law, Public Financial Control and Management Law, and the Europeanization process of Turkey which brought significant power to local governments are among the most significant changes.

*In this paper, in the light of these above mentioned strategic changes in public sector governance, the successes and failures of the process will be evaluated with a view to provide a practitioner's lens to the issues involved in order to advance future processes. First, **an overview of public sector governance** in Turkey will be presented to set the ground for evaluating further the current state of affairs. Second, **participation** as one of the most significant guiding principles of the public reforms process will be highlighted. Third, in line with the principle of participation, the introduction of **strategic management** and strategic planning into Turkish public sector governance will be explained. Next, the leading principles of **transparency and accountability** will be presented with reference to their significance for good governance in Turkish public sector. Then, an insight to how the reformers are also reforming themselves will be provided through the introduction of **regulatory impact analysis (RIA)** in Turkey. Sixth, **the decentralization process** in Turkey will be discussed as part of ongoing reforms in Turkey with a view to evaluate **its current strengths and weaknesses** in implementation. Finally, the rising trade-off between the **information technology internalization** and the public sector will be discussed in line with the current implementation phases in Turkey. The paper will be concluded with remarks as to the future of the ongoing process.*

1. INTRODUCTION

Profound changes are taking place in governance structures and responsibilities of the countries across the world. Not only the changes occurring in political, economic, social and cultural fields stemming from the globalization process - and in parallel with this, challenges relevant to regionalization, transformation of the state and the localization - but also principles of good governance such as participatory democracy, transparency and accountability are accelerating these changes further. The new regulatory needs arising from the structure, responsibility and rights-sharing, human resources policies as well as communication strategies of public sector institutions generally lead to reforms spreading through time in preference to an overall reform process at one point in time.

Within the scope of these global changes, the reforms realized by several successive governments in Turkey, reflecting the implementation of liberal economic policies and reinforcement of ties with other societies around the world, sustained significant transformations in the public sector. In this context, privatization

implementations, regulatory impact analysis, establishment of regional development agencies, resizing the local government structures, abolishing certain local bureaus of the central administration, Public Tender Law, Public Financial Control and Management Law, and the Europeanization process of Turkey which brought significant power to local governments are among the most significant changes.

In this paper, in the light of these above mentioned changes in public sector governance, the successes and failures of the process will be evaluated with a view to provide a practitioner's lens to the issues involved in order to advance future processes. First, an overview of public sector governance in Turkey will be presented to set the ground for evaluating further the current state of affairs. Second, participation as one of the most significant guiding principles of the public reforms process will be highlighted. Third, in line with the principle of participation, the introduction of strategic management and strategic planning into Turkish public sector governance will be explained. Next, the leading principles of transparency and accountability will be presented with reference to their significance for good governance in Turkish public sector. Then, an insight to how the reformers are also reforming themselves will be provided through the introduction of regulatory impact analysis (RIA) in Turkey. Sixth, the decentralization process in Turkey will be discussed as part of ongoing reforms in Turkey with a view to evaluate its current strengths and weaknesses in implementation. Finally, the rising trade-off between the information technology internalization and the public sector will be discussed in line with the current implementation phases in Turkey. The paper will be concluded with remarks as to the future of the ongoing process.

2. AN OVERVIEW OF PUBLIC SECTOR GOVERNANCE IN TURKEY

Throughout the history, as elsewhere around the world, Turkey has been transforming itself politically, economically, socially and culturally. This transformation has been at times very fast due to several international and national factors, and at times very slow. These transformation processes naturally also changed Turkish public sector governance through time. As a result of the Westernization efforts back in 19th century, Turkish public sector governance has been influenced by the French system to a significant degree. This has continued again primarily through developments in Europe and the current system has now a dual nature. In this context, the central and local government structures are introduced briefly to prepare the ground for further discussion in this section.

Turkish public sector is predominantly a centralized and democratic system of government and the local governance structures essentially function through the principle of extended jurisdiction. Accordingly, central administrations transfer their rights of jurisdiction in pre-defined and limited fields as well as reassign their decision making right to governors to implement.

The main responsibilities of central government are internal and external security, justice, population (birth registry), land registry, culture and tourism, social services, education, health, and so on. In several of these areas, local governance institutions are also authorized. The local governance branches of central ministries function through limited authority given to them by the central administration. Turkey is divided to provinces, provinces to districts /towns, towns to villages. Provinces are governed by the governors and the districts /towns are governed by the district governors. Governors and district governors are appointed by the central government. The local representations of the central government also function under these two authorities. Moreover, the special provincial administrations - also part of local government structures - are also under the authority of governors as representatives of central government.

Local governments are public organizations established through law, having an elected decision-making body and their functions are geared to meet common demands of the local people. These organizations have financial and managerial autonomy; they make their own investment programs, their own budgets and appoint their own staff. Local government system in Turkey has three pillars. The first pillar is special provincial administrations as a regional administration structure. Second pillar is municipality as an urban administration structure. Villages, the third pillar, are the rural administration structures. Although these three pillars have no managerial relation among themselves, their problems, especially infrastructure, are solved by special provincial administrations. The coordination of different units in a same region is left to various levels of offices under governorships. (Güler, 2006:269).

Special provincial administrations, whose responsibilities are limited to provinces, can also fulfil the functions of central government's local units. Their decision making body are the assemblies, established in 81 provinces, and they are public institutions administered by the governors. Their jurisdiction is defined by

Law No. 5302 on Special Provincial Administrations which has come into force in 2005. The decision making and implementation authority of relevant tasks are divided among provincial general assembly (1), provincial council (2) and governor (3). The members of the provincial general assembly are elected directly and the assembly is presided by an internally elected president.

There are 3225 municipalities all around Turkey covering the %82 per cent of the overall population, and they are all subject to scrutiny of central government. Municipalities implement the functions defined by the law. The mayor and the municipal assembly are directly elected by the people. The most populous 16 provinces of Turkey are organized as Metropol Municipalities.

Finally, villages are the smallest local governance units with limited budgets, without paid staff and they are administered by a headman and the council of elders. The number of villages governed according to an outdated law of 1924 is 35000.

3. AREAS OF CHANGE IN PUBLIC ADMINISTRATION REFORM

On the overall, Turkish public administration system reflects a system which is devoid of merit, and participation, as well as devoid of key principles of efficient and contemporary governance such as transparency, accountability, and strategic planning. In this context, several opinion polls conducted point to dissatisfaction on part of the citizens regarding the quality of public administration in general. For example according to results of a country-wide study conducted by TESEV, Turkish population is largely dissatisfied vis-à-vis the services of public institutions (TESEV, 2001:134). Moreover, again according to a study conducted by TUSIAD, similar results could be observed. Consequently, the citizens are not only dissatisfied with general living conditions individually but also with the socio-economic conditions and the quality of general public administration. What is even more striking in this study is that the general dissatisfaction on the quality of public administration and socio-economic conditions is even more that their individual dissatisfaction vis-à-vis the living conditions (TÜSIAD, 2002:12).

Turkish public administration system could not pursue the fast changes occurring in 1990s around the world. Thus the basis of unresolved various economic and social problems can be considered as the inert bureaucratic structure and the management philosophy accompanying that. As it is unlikely to resolve the current problems with the existing structures, it is inevitable to restructure the public administration system. In this way, both the trust of the society towards to state would increase and also public resources can be optimally and effectively used. (Bilgin, 2007:11).

It is possible to observe the theoretical base of the public administration reforms in Turkey through the lens of “New Public Management” approach. This approach foresees a non-bureaucratic structure with free market rationalization, replacing the former bureaucratic rationalization. (Eryılmaz, 2008:34,260). Next to this, based on principles such as participation, transparency, accountability, strategic planning, and decentralization, it creates its own institutions. In order to clearly explain these and the restructuring of Turkish public administration further, it is considered to be important to evaluate their repositioning in the process.

3.1. Participation as Guiding Principle of Reform

The reform of Turkish public administration takes as a managerial basis, the principle of participation. According to Eryılmaz, the future culture of public administration is not only to emphasize the expertise and impartiality but also, simultaneously, will underline the importance of participation (2008:240). In other words, public administration, consults its staff and the citizens more than ever. For example, in some countries civil servants are given union and collective bargaining rights, and these constitute important developments in the field (Rosenbloom, 1989:498). Again one of the four main components of the best value regime implemented in the UK is consultation, in the course of which the citizen is directly asked whether a certain service is necessary or not (Çetin, 2000:23).

What should we understand with the term participation? According to the EU Commission, participation points to the effective opening up of the process to a wide spectrum starting with conceptual formation towards final implementation. A similar regulation in line with this definition is introduced in Turkey within the scope of By-law on Ethical Behavioural Principles of Civil Servants dated 13 April 2005. Accordingly, Provision 19 and Section 3 of the By-law reads as:

“Civil servants show utmost attention to sustain the participation of those who will be directly or indirectly affected from a decision or a body of decisions aimed to improve and implement public services unless there are other competing legal provisions preventing or against them.”

As it can be seen from above legal provision, the administrative institutions have to sustain the participation of different segments of society to the decisions directly affecting them, and further they have to organize the necessary functional processes to sustain the participatory mechanisms. Citizens can also demand mechanisms that directly communicate their views regarding various regulations and activities or they can directly attempt to create these mechanisms themselves.

The principle of participation is an integral part of increased democracy in public management. This principle reads as “In decision making pertinent to public services, views and suggestions of professional organizations with the status of relevant public institutions and civil society organizations are taken into account”. However, it is not trouble-free to effectively implement this principle. For the success of such implementations, there should be an advanced democratic culture with specific reference to the significance of participation. According to statistical data, in Turkey civil society membership is 10% on the overall (Adaman et al., 2008:12). This is a striking fact describing partially the difficulties in implementation of the principle of participation.

A way of sustaining participation is the direct involvement of people to various committee meetings of local governments, and enable them to explain their views in these platforms. If this would be implemented thoroughly both the decisions taken will be more vigorous and the social sensitivity of the decisions made and the effectiveness of implementation will be higher. This process will also serve the unity of public administration with the citizens.

A further significant development in terms of participation is provincial councils. These councils bring together all the stakeholders covering the entire province, serving as a common awareness platform. In advanced democracies, when the local governments are taking decisions, the citizens are following different ways of direct participation in these decisions and try affecting them as much as they can.

In Turkey, according to Law No. 5393 on Municipalities, with reference to Provision 76, a provincial council / city council is foreseen apart from the municipal assembly. This Council is made up of representatives from professional organizations, unions, notaries, universities, NGOs, political parties, public sector institutions. The Council can discuss all the issues relevant to a province / city, and can make decisions. The Municipal Law sustains the fact that these decisions are taken to the agenda of the first municipal assembly meeting and are enforced.

These councils are unique governance mechanisms bringing together central administration, local government and civil society within the scope of a cooperation partnership. The effectiveness of such a model lies with working groups and participation of all sub-assemblies as well as volunteers. According to Municipal Law No. 3225, the establishment of these councils in municipalities are obligatory. But this regulatory obligation has its problems for internalization of the process. This should be regarded as a common platform of awareness instead of a hierarchical structure to be taken hold of (Öner, 2005: 84).

In the structuring of Provincial / City Council and its management, the missing points of implementation are a significant problem. The implementation based on voluntary participation covers those citizens who have the right to elect and to be elected. The sustainability of participation is based on the factors such as “having the culture of consensus”, “feeling responsible” and “cooperation based on trust” (Toprak, 2006:303). The significance of the participants in these Councils is not about strengthening their own position but to sustain support in decision making and implementation of these decisions for advancing the social and financial capacities of local governments through several working groups.

The 77th Provision of the Municipal Law points to a clear participatory implementation. Accordingly, municipalities are conferred with rights to implement programmes sustaining participation of volunteers for increased effectiveness, savings, and productivity as well as for increased participation and solidarity in health, education, sports, and environmental services. Both the sense of responsibility and the sense of belonging of citizens are advanced as such while the load of local governments is decreased.

If this method is further developed, also through usage of human resources in the city / province, not only cheap or free local services will be produced but also a positive psychological environment resulting from the “support” will further enhance the sense of belonging to governance structures among the citizens. This, in return, will create a role model for neighbouring people and will enhance the satisfaction of contributing to society, further leading to increased social welfare.

In order to implement the democratic local government approach and to advance the models of participation as well as to create result-oriented outcomes, meetings and events should be organized for enhanced awareness among high level management and the civil servants. Moreover, for internalization of the knowledge by the people, different tools such as meetings, brochures, etc should be developed with a view to enhance the role of stakeholders in the implementation of strategic plans.

Finally, one of the significant participatory mechanisms in Turkey is strategic plan implementations. The preparation and implementation of strategic plans are binding on public institutions and this process involves mechanism to sustain direct participation of citizens not only in preparation but also in implementation and audit phases. According to Law No. 5018 on Public Financial Control and Administration, the public institutions are foreseen to be governed by the strategic management approach while the participation of all stakeholders is made compulsory throughout the strategic planning process. The next section provides an overview of the strategic planning implementations in Turkey.

3.2.Strategic Planning: A Tool for Good Governance

As a result of the reforms introduced to Turkish public administration system a new step forward is the passage towards strategic planning in public sector institutions. This approach foresees to increase the performance of public institutions in a way that is more responsible and accountable towards the people. In strategic planning the managerial responsibility is evaluated through reaching performance targets rather than fulfilling the orders. It is both result and cost effectiveness oriented and not politically oriented

Strategic plan, the main instrument of strategic planning, is defined in Public Financial Control Law (Law No. 5018) as “the plan which contains the medium and long term aims of public administrations, their main principles and policies, their targets and priorities, their performance criteria as well as the methods to reach these and the resource distributions”. With this law, the public administrations are given the tasks of creation of vision and mission, within the framework of relevant regulations and main principles, preparing development plans, programmes; defining strategic aims and measurable targets; measuring their performance through predefined indicators; and to set up a participatory strategic plan preparation with a view to monitor and evaluate as well as to implement these.

In addition to Law 5018, Law 5393 on Municipalities and Law 5216 on Metropol Municipalities, all municipalities having a population exceeding 50000 people are obliged to prepare strategic plans. In this way, for example, a municipality is to plan its usage of resources in the next five years, and will define the type of aims and targets as well as the relevant strategies and activities to fulfill them. It follows that the municipality will pass this through its own decision making structure and make it an obligatory regulation to be also shared with the general public. At the end of this five year term, for every year, the performance results will be shared with the public through performance plans or activity reports, thus will be accountable to the electorate.

Consequently, with long term decisions and implementations, a more effective and efficient management approach will be set forth and through more economical usage of local resources the overall welfare of the public will be increased. Moreover, with Law 5302 on Special Provincial Administrations, these administrations are also assigned with strategic planning responsibility. In this way, all the institutions are geared towards a new managerial approach. The coordination of strategic planning is entrusted to strategy development units in public institutions. With Law 5436, dated 2005, all the Research, Planning and Coordination Committee Directorates are turned into Strategy Development Directorates.

For central governance institutions a transition plan has been foreseen, but the local governance institutions are directly requested preparation of strategic plans and their implementation regardless of a transition phase. Facing the obligation to prepare a strategic plan in a given period of time, local governments focused on timely preparation rather than the quality of the plan itself. The strategic plans thus turned out to be superficial and they were highly affected from one another. This in return is an obstacle before transformation of the institution in question as well as focusing on strategic areas (Erkan, 2008:68).

In Turkey, the general coordination of strategic planning is entrusted to State Planning Organization and the performance based budgeting has been entrusted to Ministry of Finance. As these are the result of a few years of development and work, it can be said to be premature to evaluate the implementation outcomes of such a process as yet.

3.3. Towards Transparency and Accountability

Today, advancement of democratic thinking, preventing corruption, avoiding bad governance, and the need to restore trust of people towards public administration paved the way for demands for increased transparency. As competition and democratic public opinion requires freedom and transparency, the bureaucratic information and its usage also needs to be brought openly before public. (Eryılmaz, 2008:219).

Transparency can be defined as accessible, open and understandable management processes and decisions. The clarity, fairness, and impartiality of actions and operations of an administration are best guaranteed when the administration is transparent. Accordingly, an inconsistent and clientalist administration cannot be transparent. New laws in Turkey require public institutions to be transparent. For example, the Law on Municipalities orders decisions, actions and various reports of the municipalities to be publicly accessible. These regulations are about informing the citizens and they are a component of transparency.

Another component of transparency is brought about with the Law on Right to Information. With this right, people have the right to ask for various types of information from all public institutions. The Law on Right to Information has made the accessible information a rule and the restrictions an exception. The responsibility of the citizens is to apply to relevant institutions and claim the information. The institution in question has to answer within 15 days after receiving the request. The existence of the Right to Information Law, in a way, provides the citizen with the role of a volunteer supervisor and the bureaucracy is audited through people themselves. In this way, the decision making processes are known and civil servants cannot easily evade the rules. This law made it difficult to cover the possible mistakes and arbitrariness.

In Turkey, one of the most frequent areas where the right to information is used is information regarding the performance evaluation results of individuals which can serve as a double edged sword. It can be positive when a civil servant is able to see his or her own performance evaluation, on the other hand, this can negatively affect the relations between an officer and the supervisor leading to conflicts, and thus it should be implemented carefully. Particularly, in an environment where a merit system is not completely institutionalized, tensions tend to accumulate and can even lead to a decrease in institutional productivity.

Another implementation regarding transparency relates to the Financial Management and Control Law, due to which all the ministries publicly present their annual activity reports on their websites. In this way the income and expenditure of state is shared through internet in a detailed way.

It is claimed that the approaches based on New Public Sector Management (i.e. performance based management, participatory management, citizen orientedness, subsidiarity, better regulation, public – private sector rapprochement) will erode conventional ethical values. (OECD,1996). Consequently, simultaneously decreasing public expenditure and increasing performance, coupled with the pressure build upon civil servants, can lead to decreased quality in services and trigger unethical behaviour. It is possible to observe difficulties in providing services when the public sector managers and officers are squeezed between announced service standards of the government and the budgetary limitations.

Transparency in management is a prerequisite of accountability. The optimal implementation of this principle increases awareness on part of the citizens and it needs to be sustained. Otherwise, like other similar regulations, these are doomed to stay on paper, unimplemented. In Turkey, for being optimistic in this context, there is a need for further enforcement. According to a study conducted in Turkey, for example, 60% of the public is unaware of the right to information and 70% do not feel the need to use or demand such information (Adaman et al., 2008:35)

3.4. Regulatory Impact Analysis (RIA): Reforming the Reformers

Regulatory Impact Analysis (RIA) has been in use worldwide as a regulatory reform tool for over twenty-five years, both by the governments and the private sector. For example, RIA processes began in the USA in 1974, in Canada in 1967, in Australia in 1985, in Denmark in 1993, in Finland in 1970, in France in 1996, in Germany in 1984, in Japan in 1987, in the European Union and World Trade Organization in 1990. Although studies on the use of RIA in reform processes were started within the OECD in 1974, its effective usage began in 1995. Within this scope, the OECD Regulatory Quality Council established RIA standards with a 10-article checklist in an advisory decision as guidance for optimum implementation, principles regarding best practices in RIA were determined in 1997 and these were last updated in 2007. Currently, OECD and the EU are conducting joint initiatives on RIA. In all of the developed countries, RIA has become the norm in democratic and good governance, and in the face of ever increasing competition, the developing countries are also internalizing RIA more and more. RIA is also used in corporate governance.

In Turkey, one of the important components of reform and better regulation is also RIA which reshapes the political and administrative decision making as well as regulatory design competence of the state. Turkey joined the EU and OCED countries using RIA, especially within the framework of practices carried out in OECD, at the beginning of 2006. The general fundamentals of the implementation of RIA were established with the “By-law on the Procedures and Principles for Preparing Legislation” published in the Official Gazette No.26083 on 17 February 2006 and the details of implementation were determined with the Prime Ministry Circular No 2007/6 dated 2 April 2007 and its appendix, the RIA Guidebook.

According to the above mentioned Prime Ministry Circular, public institutions within the scope of the By-law on Procedures and Principles for Preparing Legislation are charged with creating administrative capacity within their own structures for RIA, establishing the quality, defining a unit to ensure cooperation with the “Better Regulation Group” formed at the Prime Ministry, and acting according to the Guidebook while carrying out their duties. According to this Circular and on the request of Prime Ministry, RIA coordination units and liason persons have been assigned to all public institutions. RIA is both a tool and a decision making process which will be used effectively for regulatory reform by the state in the coming years and it is getting institutionalized more and more. Since the consultation component of RIA sets forth direct participation of civil society and business world into policy making processes, it is a significant step for better governance in public sector as well as for strengthening democracy.

3.5.Decentralization in Turkey

The formulas of the World Bank and the UN which cover decentralization are defined as subsidiarity by the EU. The World Bank and the UN take decentralization into consideration in four different ways. First, deconcentration which means to move authority from centre to local public administration. Second is the devolution, meaning passing authority to local governments. Third is the delegation meaning the authority is passed to one step down authority in the hierarchy, and finally, the fourth one is privatization (Güler, 2005:23).

The decentralization system in Turkey covers the spectrum somewhere between deconcentration and devolution. Only through such a model, it seems possible to assign the rights of the centre to local governance institutions. In order to establish a strong local governance system, there is a need to strengthen governorships, district governorships and provincial organizations. This will enable enhancement of on site service quality that is to be followed by a transfer of further rights to the local governance structures. It is important because the citizens still assign great importance to provincial organizations. For example, the governorship as an institution is still much respected. Governors are among the most trusted civil servants according to the opinion polls.

The centre has a significant number of responsibilities in terms of enhancement of administrative capacity; mobilizing civil society; and creating participatory mechanisms. This would accelerate the implementation of the public reforms at local scale where the governors are convinced in the merit of them. Governors and district governors are individuals whose professional maturity in public administration process is sustained through a special evolutionary process in time both theoretically and through direct implementation. In the implementation of public reforms, the services of these individuals should be employed at a maximum scale (TEPAV, 2005:40).

While with new laws new governance mechanisms are created, and while local governments are given new rights and responsibilities, there is a need to give special weight for increasing the administrative and financial capacity of provincial organizations. However, the conflict between central and local governance organizations need to be reconciled where possible in order to prevent the difficulties in implementation of services. For example, there are conflicts in provision of health, culture, tourism, and social services. In terms of social services there are social services provincial directorates, special provincial administrations, social solidarity foundations that serve the same goals. This leads to difficulties in accurate distribution of social services.

Meanwhile, increasing the rights and responsibilities of local governance structures without increasing their capacity would make these organizations inept and inadequate. When the reforms are realized, the adequacy of service provision scale of local governance structures in human resources, technical and administrative capacity should be evaluated against the principles of public interest, public service, neutrality, savings, service outreach, equality, and equity (TEPAV, 2005:49).

Although subsidiarity (transfer of rights) as part of New Public Management approach is perceived to be necessary for efficiency and needs conformity, there are signs that it erodes the values of conventional public services. Subsidiarity affects the conventional accountability and distribution of responsibilities (Al, 2006:246). While there are efforts to sustain autonomous working of the institutions through subsidiarity, the area of discretion widens further. The managers using this right can be observed in being irregular conduct. Moreover, it is claimed that an absolute decentralization process can lead to local authoritarianism (Kalaycıoğlu, 2000:34).

In developing countries, there are already difficulties in fulfilling the responsibilities with existing capacities of local governments, and a further widening of rights and responsibilities could possibly lead to decrease in service quality. Therefore, implementation of decentralization strategies should go parallel with capacity empowerment or even prior to that.

In Turkey, in 81 provinces there are 81 special provincial administrations; 3215 municipalities; and 35000 villages, which, on the overall, constitute the local governance realm. Special provincial administrations are newly recognized as service providers in the system in the recent years; however, municipalities constitute the backbone of the system. In the recent reform endeavours the centre of gravity shifts towards the special provincial administrations. In the same province, how the relations among two different local governance and central governance institutions will be shaped is still an unknown parameter. The conflict of mandate and mission among these institutions is becoming a frequent phenomenon. For example, how will the municipalities accept the right of provincial planning entrusted to special provincial administrations? (Güler, 2005:19). It remains to be seen how these ambiguities are going to be resolved in the coming years.

If the local government reform in Turkey is to be evaluated against the EU criteria, it is possible to say that Turkey is in conformity with European Charter of Local Self-Government and the general EU regulations in terms of legal framework. However, if it is to be emphasized once again, the trade off between the rights and responsibilities of special provincial administrations and the future character of the relations between central government and special provincial administrations could create a significant interest for following up the contribution of this unique model in Turkey to general public administration literature in the future. The problem in this context stems from the internalization and implementation of this new governance approach /culture. This will be a considerably time consuming process.

3.6 Information Technology and the State: E-State Implementations

E-State is a structure which enables outreach of public services to citizens through usage of information technology (Çevikbaş, 2009:76). In this way, faster, cheaper and efficient provision of services has been aimed at, and it is named as electronic state or briefly as e-state. With the implementation of e-state:

- Red-tape will be decreased and efficient use of time will be sustained
- Service costs will go down
- Individual participation will increase thus will lead to enhancement of democratic culture
- Overlap of communications among public institutions will be avoided, while resources will not be exhausted,
- The possible clashes or conflicts between the service provider and receiver will be eliminated.

The most significant step towards e-state has been through Law 5070 dated 2004 on Electronic Signature. With this law, official correspondence has been facilitated in electronic environment. Among the examples of e-state implementations in Turkey; MERNIS (registration of birth services), SAY 2000i (Minsitry of Finance Audit Offices Information Flow), UYAP (National Justice Network), POL-NET (Police Services) can be indicated as examples.

In E-State implementations, it is hardly possible to say that the original targets have been reached due to a number of reasons such as; the lack of information on part of the citizens, the insufficient usage of internet by the citizens, problems related to lack of relevant legal basis; and limited financial resources. In terms of utilization of information technologies, Turkey is listed among the very last countries across Europe (Balcı ve Kırılmaz, 2009:66). This in return means that even if the state passes to electronic environment, a significant number of the citizens do not have access to these types of services.

It would only be optimistic to think of effective public administration through buying computers to public institutions and creating web sites. The e-state implementations thus should go beyond these technical issues and be considered in a holistic manner. For example, continuous training of the staff in public institutions, informing the citizens at various levels should be among the priority areas in this context. Consequently, there would be maximum utilization of information technology usage as the catalyzer of change in public administration.

4. CONCLUDING REMARKS

The meaning of public administration reform for the citizens is to make straightforward usage of public services, reducing red tape, democracy, human rights and enhancement of the rule of law; briefly, it is citizen oriented governance. For civil servants it means increase in salary and in authority, promotion options, and optimization of social security rights.

In the last twenty years, it is possible to observe remarkable transformation in Turkish public administration. The starting point of the regulatory reforms is the New Public Management approach that is already in use in various developed countries. The principles evolved as a result of economic, political and social developments in these countries through time, also needs to be tested through a time span in order to conclude how these will be reconciled with the evolution of relevant processes as well as the socio-economic and cultural values prevalent in Turkey. The harmonization within the context of EU integration and its institutional requirements simultaneously reflect the implementation of a strategy, and its indicators towards catching up with global standards.

Consequently, the possible roadside accidents towards reaching these reform goals might occur as momentous parameters to balance between the gains and losses to be resulting from these processes. In other words, will the burden of change be carried by the whole society equally or by a certain part of the society? Are the reforms to be realized in a holistic way or are they to be carried out step by step or in patches? For example, is it important to make institutional changes in central government or to make new structuring in both central and local governance while changing also functioning of legislative and judicial institutions? Is it the society to be changed through altering regulations or is it the regulations complying with the changing society? These questions need to be discussed and answered by the society as a whole, and it should be the decisional priority of Turkey as a democratic republic.

In today's environment, it is hardly possible to say that reform climate is continuous. Different political and social changes are simultaneously occurring in Turkey, and public sector reform is not a key priority any more. Both in central and local governance institutions, there are no signs to indicate that initial enthusiasm is continuing. It is also hardly possible to say that the reforms are implemented thoroughly. This is because reform is a dynamic process and for it to succeed the societal dynamics and relevant responsibilities need to be taken into account. The changes in regulations and their implementation through public administration system will not create change radically. The conventions coming into existence through time, as well as the existing institutional culture might lead the civil servants to seek ways to keep the status quo. However contemporary concepts and demands along with these will undoubtedly commence a role to sustain the continuity of public sector reform process eventually.

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AN APPLICATION OF STRATEGIC MANAGEMENT TO THE PUBLIC SECTOR: WHAT ACCOUNTS FOR ADOPTION OF REINVENTING GOVERNMENT STRATEGIES ACROSS THE STATES OF THE UNITED STATES

Murat ÖNDER
Cumhuriyet University, Turkey

ABSTRACT

In 1990's, a new wave of reform movements with result oriented, strategic human resource planning, cost effective philosophy has been launched with the name of reinventing government in the USA to provide better service but cost less. However, some argue that reinventing government strategies did not produce expected results and the adoption of reinvention reform strategies varies across states, cities, and agencies. This paper analyzes the reasons for the differences in the adoption of reinventing government reforms as strategic management application in public sector since most of the basic assumptions come from strategic management. I revisited and evaluated the early applications with the regression model, and discussed the findings and their implications with strategic management framework for academicians and practitioners for today's and future public sector management.

Keywords: *Strategic management, public sector application, reinventing government.*

INTRODUCTION

The history is a full of reform movements as a continual search for an ideal governmental form that can deliver services in an efficient, cost effective, accountable, and responsive manner. In 1990's, a new wave of reform movements with result oriented (Moynihan, 2006: 77), strategic human resource planning, cost effective philosophy has been launched with the name of reinventing government in the USA to serve better.

Reinventing government reform movement has achieved some strategic notable results, and we still see some countries across the world trying to adopt reinventing government strategies (Sulle, 2009:7). However, some argue that reinventing government strategies did not produce expected impact and ended up with disappointment (Moynihan, 2006:84). The research also indicates that the adoption of reinvention reform strategies varies across states, cities, and agencies. Therefore, this paper analyzes the reasons for the differences in the adoption of reinventing government reforms across states. Reinventing government can be considered as strategic management application in public sector since most of the basic assumptions come from strategic management.

This paper aims to see why strategic management applications in public sector works or fails in a certain extent. I formed several hypotheses driven from the literature and combined different perspectives from political science, public administration management and economics in the regression model, which includes one dependent and nine explanatory variables. I revisited and evaluated the past applications to provide the findings and discuss their implications for academicians and practitioners for today and future.

REINVENTING GOVERNMENT

Strategic management requires comprehensive analysis of an organization's strength and weakness internally and externally before making a strategic plan and implementing it (Eren, 2005: 15; Dinçer, 1998:167-9).

Employing extensive research and analyses, Vice President Al Gore had a report prepared for US Public Sector Organizations, later known as Al Gore Report. They offered dynamic, catalyst, customer-market oriented, competitive government. Their philosophy changed from government strategy with closed perspective to strategic management including many stakeholders during preparation and adoption of these strategies (Steurer 2007:204) as in embeddedness within networks. Strategic management is to convert policy by including all stakeholders in the design and implementation of the policy (Köse, 2008:63).

Strategic processes in the public sector may have many similarities to those in the private sector. Public sector managers can gain various benefits from writing strategic documents, including mission statements, vision statements and strategic plans (Joyce, 2004: 107). Public sector managers can become more successful in, and more accountable for, performance, by using strategic goals to develop annual performance targets just like in the private sector. Having developed framework strategic management influenced public sector management to adopt similar philosophy.

The Clinton Administration designed the reinventing government (REGO) campaign with goals that would favor a transformation of administrative machinery to produce “a government that works better and costs less. Reinventing government movement has gained great momentum in the United States by the National Performance Review and the introduction of Government Performance and Results Act (GPRA) of 1993, which is a reflection of contemporary management ideas in government (Çorbacıoğlu, 2005:2). GPRA attempts to contribute to cultural and organizational change by reinventing American federal government through strategic planning, annual performance planning and reporting, as well performance based budgeting.

There is no single intellectual source for the reinventing government movement. It seems to have been improved largely among practitioners of private sector and public administration in different places in the world such as United Kingdom and New Zealand. Contrary to public sector organizations, private sector organizations recognized that they have to change their cultures and processes to survive in a rapidly changing world to be able to compete in the market and meet the needs of their customers (Kamensky, 1996:247).

The proponents of reinventing government argue that administrative institutions in the United States were established based on the bureaucratic model of command-and-control and have not changed significantly in their design and operation during the twentieth century. They claim that the onset of modern information age has rendered this bureaucratic form of government as ineffective, static, and obsolete. Their justifications of reinventing government rest on several assumptions. These are (Schachter, 1997):

- Federal agencies of the premodern era were designed and operated according to the Weberian bureaucratic model of command, control, and strict hierarchy.

- Agencies of the premodern era did not operate entrepreneurially. The entrepreneurial characteristics within the reinventing government model are the keys to effectiveness for agencies of the modern information age.

- The design and operation of agencies has not changed significantly to adapt environment during the twentieth century.

- Federal agencies with designs based on the bureaucratic model performed effectively during the premodern era, when problems were tractable, goals were congruent, and information was bounded.

- With the advance of the information age, the performance of modern era bureaucratic agencies has increasingly worsened.

Gaebler and Osborne, pioneers of REGO, translated the principles of new public management into United States contexts (Kamensky, 1996:248 and Çorbacıoğlu, 2005:3). New public management as an eclectic approach uses many concepts suggested by public choice, principal-agent theory, transaction-cost analysis, strategic management, and total quality of management, organization development, and benchmarking (Moynihan, 2006:78). While bureaucratic government has the characteristics such as formalization, hierarchy, monopoly, political autonomy, and specialization; entrepreneurial government, suggested by reinventing government, maintains adaptability, capacity building, client-responsiveness, competition, delegation of operational decision-making authority, measured outcomes, sense of mission and so forth (Meier et al, 2006: 357-9; Wolf, 1997:354).

United States should be more entrepreneurial, primarily through a process of reforming administrative institutions. Osborne and Gaebler (1993:16) argue that complex entrepreneurial paradigm including

principles of markets and public service should be a model for bureaucracy now and future. This entrepreneurial government which later used as basic tenets of REGO possesses these characteristics (Osborne and Gaebler, 1993:321-331) which one can easily tell that most of them were borrowed from strategic management philosophy:

- Continuous training programs to improve client or customer service;
- Quality improvement programs to encourage team problem solving and to empower employees;
- Benchmarks for measuring program outcomes or results;
- Strategic planning that produces clear agency mission statements;
- Systems for measuring client or customer satisfaction;
- Simplification and relaxation of human resource rules; be more innovative and flexible;
- Privatization of major programs;
- Reduction in the number of levels in the agency hierarchy;
- Delegate decision making authority to lower organizational levels;
- Greater discretion in procurement of goods and supplies.
- Empower employee and citizens;
- Focus on catalyzing various organizations and stakeholders into action to solve problems.

FACTORS AFFECTING ADOPTION OF REINVENTING GOVERNMENT STRATEGIES

The researches indicate that **the adoption of reinventing government reform** strategies (REGO) vary across states, cities, and agencies. REGO occurs for a number of reasons. It is not a mere neutral, technical one, but is the result of political actors and involves complex stream of processes and participants. REGO is influenced by external socioeconomic factors as well as internal organizational factors. Additionally, institutional environment also influences REGO across states. Most of all, REGO occurs by the interactions among different factors.

Successful reinvention efforts are frequently reported in the media. Ketl (1998:37) states that media also played important as motivator factor in adoption stage. Schneider et al. (1995) emphasizes the importance of entrepreneurship in the institutional change. Some scholars examined the importance of local government and human resources management in the adoption process (Ruhil et al. 1999: 434). They reduced reforms into three main categories and tested their extent of implementation. They found that leadership, commitment and fiscal concerns are important in the success of adoption.

Durst and Newell (1999:62) in their research on adoption of reinventing government found that reasons and actors of adoption play very important factor for successful implementation. While actors are high-level administrators, midlevel managers, employees, governing board, customers/clients, and some other persons and groups; general reasons for implementations are revenue problems, competition, complaints, media criticism, and encouraging leaders. The economic decline and financial problems are most important factors for reform demand (Chackerian, 1996:25). Fiscal stress often forces to change in the organizational structures, functioning and choices to increase the efficiency and effectiveness (Ruhil et al. 1999: 435; Durst and Newel, 1999:65). Using resources efficiently and finding new resources is a major concern for strategic management.

Hypothesis 1: REGO is more likely when the states have revenue problems and fiscal stress.

Reinvention makes assumptions about the nature of public administration that cannot be sustained. The role of politics in administration processes is essentially ignored. The politics/administration dichotomy goes back to the early reform movements. The dichotomy referred primarily to the belief that “politics” in terms of partisanship should be kept out of administration of government programs. It became clear today that it would be very difficult to remove politics from administrative activity. Kellough (1998:6) argues that the reinventors appear to assume that legislative, judicial power, and role of politics in public administration is negligible. Multiple goals that, at times, are conflict with each other, not solving major incentive problems, neglecting political dynamics and constitutional system.

Political institutions may either facilitate or block the expression of external interests. Success of strategic management is to convert policy by including all stakeholders in the design and implementation of the policy (Skok, 1989:134). Lack of political will and support seems one of the most important factor in REGO implementation (Steurer, 2007:202). Pursuing policies that have widespread stakeholders’ acceptance is a good way to reduce policy adoption costs. The probability of policy adoption might decline as the party competition approaches to the balance (Chackerian, 1996:26-28) means high competition.

Hypothesis 2: REGO is more likely when there is less legislative party competitiveness.

Ruhil et al (1999:434) found that city manager is the single actor most likely exerts influence on the extent of the reform activities in his community. Central to his analysis is the role of leadership, known as necessary if a governmental unit is to innovate successfully. Within the structure of local politics, two factors are central: the mayor and city manager. Although a number of important institutional constraints inhibit reform activity, city manager leadership appears to be critical for overcoming the impediments to efficient governance. City managers may pursue reform not only to improve existing governance structure but also to earn reputational gains that translate into a move up to larger communities with larger staff and larger budgets (Ruhil et al. 1999:435-438). Managers stand to benefit in terms of their reputation by successfully introducing reforms. Reputational gains can translate into more tangible rewards since managers are mobile and participate in a competitive national labor market.

Schneider et al (1995) emphasizes the importance of entrepreneurship in the institutional change. The adoption of innovative policies of local governments depends on both public entrepreneurs, and the presence of certain conditions and institutions that stimulate entrepreneurial activity. Strategic management provides vehicle that skilled leader can use to involve stakeholders in creating visions for the agency, building commitment to strategic objective (Poister and Streib, 1999; Barzelay & Jacobsen, 2009: 327). In the state level, governors with concentrated executive authority in their hands are expected to act as entrepreneurs.

Hypothesis 3: REGO is more likely in the states where governors have more power.

Elected officials will do anything to give the public the impression that the great and wonderful things are being done (Clingermayer and Feiock, 1999). The public demands for less government will have impact upon elected officials to adopt REGO (Durst and Newel, 1999:69). The people who vote and have higher education are expected to have more sensitive and accountable to the public affairs (Hughes and Conway, 1997:191), and try to influence the policy makers in various ways for persuasion.

Hypothesis 4: REGO is more likely in the states where citizens are more sensitive to the public affairs.

Some researches compare the South with the North arguing that the South is relatively more affected by religion, and more conservative in many issues (Mezey, 1983). Ruhil et al (1999:438) tested whether there is a difference between the North and South in the adoption of REGO in local government level and found differences across regions.

Hypothesis 5: REGO is less likely in the southern states.

Clingermayer and Feiock (1999) state that homogeneity and/or diversity have effects on local policy choices since homogeneous societies/groups might protect their interests more powerfully, and also may have considerable influence on policy makers.

Hypothesis 6: REGO is more likely in the states where there are more homogeneous societies and groups.

In the urban areas, people have more chance to get education and other opportunities, change their traditional values, increase their revenues, and come together to establish certain groups so that they can protect their common interests by influencing policy makers. Residents of the urban areas are more likely to institutionalize the change and ready to accept the change.

Hypothesis 7: REGO is more likely in the states where the urbanization is high.

RESEARCH DESIGN

My research question is “What accounts for the difference in the adoption of reinventing government reforms strategies (REGO) across states of the United States?” To answer this question, I combined several perspectives into our model that has several hypotheses, which includes several causative relationships between our independent variables and the adoption of REGO in state level as a dependent variable. Units of analysis of this paper are the states of United States. The model has one dependent and nine explanatory variables.

The dependent variable

The dependent variable is the adoption of REGO in the agencies across states. The data for the dependent variable were drawn from the American State Administrators Project, a mailed survey of heads of state agencies completed by 1229 respondents in late 1994 and early 1995. Survey questions distributed to heads or directors of 93 types of agencies in the 50 states. Since 'reinvention' incorporates numerous specific

proposals, the survey included a set of 11 items devised from the major reinvention literature. Each item was constructed to tap a principal reinvention theme and, as a group, to represent this paradigm. Each administrator was asked to report the actual level of change in his or her own agency on each reform proposal (Brudney, Hebbert, and Wright, 1999).

From time to time, state agencies undertake to change the way they do things. Please indicate the extent to which your agency has implemented each of the following over the last four years:

- ___ no changes considered; ___ considered, no action yet;
 ___ action/s planned; ___ partially implemented;
 ___ fully implemented.

- 1- Training programs to improve client or customer service;
- 2- Quality improvement programs to encourage team problem solving and to empower employees.
- 3- Benchmarks for measuring program outcomes or results;
- 4- Strategic planning that produces clear agency mission statements;
- 5- Simplification and relaxation of human resource (personnel) rules;
- 6- Increasing manager's discretion to transfer funds or carry over year end funds;
- 7- Reduction in the number of levels in the agency hierarchy;
- 8-Decentralization of decision making to lower organizational levels;
- 9- Systems for measuring client or customer satisfaction;
- 10- Privatization of major programs;
- 11- Greater discretion in procurement of goods and supplies.

Table I: The Descriptions of the Variables

Variables	Descriptions	Mean	SD
REINVENT ^a	Reinvention implementation (1992-1996)	22.735762	2.697588
REVENUE ^b	Per capita state government revenue in 1994	\$3,341.96	\$1,425.74
COMPETIV ^b	Legislative party competitiveness as 1994	29.8416	23.3461
BUDGETPO ^b	Budget making power (Full responsibility=1, Shared=0)	.80	.40
ITEMPOW ^b	Item power of governors (Yes=1. No=0)	.82	.39
VOTING ^c	% of eligible population reported voting in 1994	47.1800	7.8652
EDUCATE ^c	% of population graduated from high school as of 1995 (age 25 and older)	82.8680	4.8372
SOUTH ^c	South/non-south (Southern=1, Non-southern=0)	.32	.47
MINORITY ^c	% of minority population in 1995	14.8410	11.0555
URBAN ^c	% of urban population in 1990	68.1800	14.6714

^a Brudney, Hebert & Wright (1999)
^b The Book of the States 1994
^c State Rankings 1996

The response to each reform was assigned a score ranging from 0 for "no change considered" to 4 for "fully implemented." The dependent variable used in the analysis is an additive scale based on summing responses across the 11 items.

The Independent Variables

Nine independent explanatory variables test the hypotheses. The data regarding our independent variables were driven from the Book of the States, and State Rankings. To measure the fiscal stress and revenue problems the states have, I used per capita state government revenue (REVENUE).

Legislative party competitiveness was operationalized by using the following formula: The party competitiveness increases as the numbers approach to the balance (zero).

Competitiveness in the Senate = (% of Democrat Party members out of total members) - (% of Republic Party members out of total members), \Rightarrow Competitiveness in the House = (% of Democrat Party members out of total members) - (% of Republic Party members out of total members), \Rightarrow

Party Competitiveness (COMPETIV) = [(Competitiveness in the House | + Competitiveness in the Senate)] / 2.

Entrepreneurship and/or commitment of governor was measured by governor budget making and item veto power. Two variables were used to measure the power/authority of governors. The budget making power (BUDGETPO) of governors was illustrated by using a dummy variable that equals to "1" if governor has full responsibility over budget making, "0" if s/he shares responsibility with other agents. The item veto power of governor (ITEMPOW) was illustrated with again a dummy variable that equals "1" if the governor has the item veto power, "0" if not.

The sensitivity of citizens to the public affairs was measured by using voter turnout and the education level, % of population which graduated from high school. The sensitivity of citizens to the public affairs was measured by using voter turnout (VOTING) in 1994 Elections, % of eligible population reported voting, and the education level (EDUCATE), % of population which graduated from high school as of 1995 (age over 25).

SOUTH denotes the regional differences. It is a dummy variable that equals to "1" if the state in the South Region, "0" otherwise. MINORITY was included to specify the degree of society's heterogeneity. If the percent of minority population increase, the society will be more heterogeneous.

URBAN illustrates the urbanization level of the states. Some of the authors (Ruhil et al.1999; Feldman, Kearney, and Scavo, 1999) use population density instead of urbanization since they concentrated on the implementation of REGO in more local and city level. However, in state level, using population density may misguide us for example if we think about some states which have specific characteristics such as deserts, mounts, long winters so forth even though they may be urbanized.

FINDINGS AND DISCUSSIONS

The ordinary least squared (OLS) multiple regression method was employed to analyze the data. The model with one dependent and nine explanatory variables was found statistically significant ($p < .01$). There is a moderate relationship between the explanatory variables and the dependent variable, reinvention implementation ($R^2 = .412$). Consistent with Moynihan (2006:82) findings, partial adoption of REGO have been observed. Although most of the variables verify our hypotheses, a few of them are not statistically significant. Let's evaluate the correlation of each variable in the model separately.

The hypothesis 1 about fiscal stress and REGO was supported by the findings that there is inverse relationship between per capita state government revenue and the implementation of REGO ($p < .10$). One can say that the states that have fiscal/revenue problems are more likely to adopt the REGO. Findings support the arguments that reinvention is a set of proposed reforms aimed at solving persistent financial problems in government by promising that we can do more with less. However, this too much emphasis on businesslike approach was criticized since there are numerous legal and other distinctions that can be drawn between government and businesses and there are important values in government that sometimes take precedence over economy and efficiency (Kellough, 1998:7-8).

Table II: The Adoption of Reinventing Government Reform Across States

Variables	B	Std. Error	T Value	Significance
CONSTANT	2.913	8.773	.332	.742
REVENUE	-4.827E-04	.000	-1.781	.083
COMPETIV	-2.670E-02	.016	-1.717	.094
BUDGETPO	-2.505	1.010	-2.480	.017
ITEMPOW	1.449	.908	1.595	.119
VOTING	.126	.060	2.096	.042

EDUCATE	.151	.109	1.386	.173
SOUTH	2.277	1.175	1.938	.060
MINORITY	-4.775E-02	.041	-1.158	.254
URBAN	6.693E-02	.029	2.344	.024

N = 50, R² = .412, F = 3.119, Significance of F = .006

Durbin-Watson = 2.041

Dependent Variable: Adoption of REGO Strategies

While previous research proved the importance of environmental factors on the performance of strategic management in private sector, they argue that there is little evidence on whether strategic planning was effective in public sector (Hendrick, 2003:496-7). They argue that the attentiveness of stakeholder, ambiguity, openness, and nature of colatitions create obstacle in strategic management applications. The hypothesis 2 regarding legislative party competitiveness has been supported ($p < .10$). Pursuing new ideas and expressing them in a competitive legislative body increase the transaction cost of decision making, which prevent the emergence and development of new ideas. One can argue that if the legislative party competitiveness increases the adoption of REGO decreases.

The hypothesis 3 regarding power of governors seems to be questionable since the statistical results indicates that the relationship is opposite of arguments. It appears that there is inverse relation between budget making power governor and the adoption of REGO ($p < .05$). With 99 % confidence, we can argue that the REGO is more likely in the states where governors share their budget making responsibility with the other agents. However, this situation is compatible with the philosophy of REGO in terms of participation. Other variable regarding item veto power of governors does not have statistically relationship with the adoption of REGO. However, very close value of .11 significance level leads us to think that the item veto power of governors has some influence on the adoption of REGO. Strategic leadership is seen as a key element in effective strategic management.

Both variable regarding powers of governors do not support our hypothesis 3. Both of these variables indicate the structural (statutory) regulations about the power governors have. But in reality, we do not know how the governors acted, whether they used their power or not. Our operationalization of commitment/entrepreneurship of governors in terms of power is questionable. Different governors may use their power differently. Our units of analysis are the states not the governors, which might be weak in measuring entrepreneurship of governors. Enthusiasm is not enough for successful implementation of new practices. It is important to have support from higher levels in the hierarchy and from the political level (Barzelay & Jacopsen, 2009: 327).

The public demand/pressure for the government that costs less from more accountable and sensitive people to public affairs in terms of political participation is an influential factor in the adoption of REGO. It appears that there is positive correlation between voter turnout and the implementation of REGO ($p < .05$). In other words, the adoption of REGO is more likely in the states that have higher political participation in terms of voter turnout. The political participation is one of the most important factors that indicate sensitivity/accountability to the public/political affairs. The concept of consumers/taxpayers/receiver of public service or citizens is in the focus of REGO. Citizens should act, and have right to ask and learn what is going on. Customer orientation, one of the most important principles of reinventing government, has been evaluated as a problematic since identifying customers in the public sector can be sometimes very difficult unlike in private sector. However, the relation between education level and the reinvention implementation is not statistically significant. The measurement of education level needs to be improved.

It appears that there is statistically significant relation between regions and the adoption of REGO ($p < .10$). However, the results are contradictory with our hypothesis, which argues that in the Southern states being more conservative, REGO is less likely to be adopted than non-southern states. But according to our findings the southern states are more likely to adopt REGO. The similar results regarding adoption of REGO according to regional differences were found by Feldman, Kearney, and Scavo (1999).

There is an inverse relation between minority and the adoption of REGO, but it is not statistically significant. Our operationalization of the hypothesis 6 needs to be rechecked and find alternative way to measure the heterogeneity of society/groups in given states. It appears that there is positive linear relationship between urbanization level and the adoption of REGO ($p < .05$). We can argue that as the urbanization level increases the adoption of REGO increases.

CONCLUSION

The reform movements can be viewed as a continual search for an ideal governmental form that can deliver services in an efficient, cost effective, accountable, and responsive manner. Together with 1990's, a new wave of reform movements has been launched with the name of reinventing government in the USA regarding this reason.

The proponents of reinventing government argue that administrative institutions in the United States were established based on the bureaucratic model of command-and-control and have not changed significantly in their design and operation during the twentieth century. It has been claimed that the onset of modern information age has rendered this bureaucratic form of government as ineffective and obsolete. So the government and its philosophy should change, and should be more entrepreneurial, including principles of markets and public service, as a model for bureaucracy now and future.

Despite many criticisms on reinventing government regarding its implementation and philosophy, this reform movement has achieved some notable and impressive results. And learning successful reinvention efforts from frequent reports in the media diffused implementation to other agencies and states. However, the researches indicate that the adoption of reinvention reforms varies across states, cities, and agencies.

This paper partially answered the question of "What accounts for the difference in the adoption of REGO reforms across states?" The model explains variation with macro/external variables rather than micro/internal variables such as attitudes of implementers, administrators or other staff, organizational considerations, and individual contributions. It has been found that there is statistically significant relation between the adoption of REGO and fiscal stress, legislative party competitiveness, powers of governors, voter turnout regional differences, and urbanization. Nonetheless, it only explains very little about complete adoption. There is no significant relationship between the adoption of REGO and heterogeneity and social capital of society.

This study has given the story of partial implementation of strategic management in the public sector with the REGO. Findings will help us to understand why public sector fails in adoption of strategic management in macro level. After the many years of public-sector reforms in today's public administration, a concept of strategic management for the delivery of public services proved its significance. However, it must take into account the specific features of the public sector and the implications of the rule of law. It has been found out that there are some critical application problems in the public sector. The paradox is that strategic management is most needed in public sector where it is less likely to work, and it is most likely to work where it is least needed. That is, strategic management will be successful where organizations have capacity. If they do not have the capacity, they have to adopt strategic management to increase the capacity.

Political leaders and Public managers need to have more commitment and get more serious about long term strategies which will bring the success. Al Gore lost the elections; Bush came into power, and together with the September 11 attacks, reinventing left behind the shadow of homeland security policies. Once more it underlines the significance of leadership and commitment in strategic management application. Therefore, according to them, reinventing did not create expected results. However, it should not be forgotten that US public organizations still are the ones that run and look like successful firms.

Political leaders and managers should be more strategic in public sector application; they cannot just directly copy normative strategic management from the book, their commitment to long term strategies will bring the success. It will look perfect on the book but not in real life application, if you do not consider critical issues in the public sector. Some of the critical reasons why it may be difficult to adopt strategic management in public sectors might be given as it follows; shared power within different levels of government, political environment muddies definitions of performance, and public managers have less autonomy and control. Hopefully this study makes contributions to public strategic management theory and practice, and questions raised in this paper stimulates critical thoughts and further the research for future applications.

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ENERGY AND DEVELOPMENT STRATEGIES

FINANCIAL POLICIES ON RURAL DEVELOPMENT: EU FUNDS AND THE EXAMPLE OF TURKEY

Cem KOLUKIRIK, H.Selçuk ETİ
Namık Kemal University, Turkey

ABSTRACT

The low level of added values of economic activities in rural areas, regional inequities in income distribution, increase in unemployment due to the technological improvements and mechanization, and the inadequate infrastructure in those regions are causing life conditions to decrease in rural areas. This leads to a great volume of immigration from rural to urban areas and consequently, social and structural problems in cities. So, in general, it is not possible for any government to ignore the problems in rural areas in a development period. Governments should supply not only direct financial aid for people living in rural areas, but also financing of sustainable and participative approaches that will help those people to earn an income. The projects and programmes about rural areas in Turkey which applied in the past could not get enough success. This is because, local problems were tried to solve in central, the inadequate participation of local actors during the preparation period of projects and programmes and defining the problems and determining the priorities. In the period 2007 – 2013, European Union will send some financial aids to a candidate country Turkey, under the title of “rural development”. Thus, Turkey, which could not perform rural development by his own policies, will have some opportunities with the help of its position as a candidate.

In this study, the importance of European Union’s pre-membership financial funds on performing the rural development in Turkey was analysed, current situation of rural areas in Turkey was defined and the possible results of applying the funds coming from EU was discussed.

Keywords: The funding policies, rural development, Turkey, European Union, IPARD

INTRODUCTION

Rural development is contextually a significant political issue such as market efficiency in rural areas, improvement of quality and sanitary standards and creating new employment and alternative job opportunities. Therefore, it is fundamentally a multi-dimensional concept that is to be interpreted with an integrated approach with the political issues like health, education, employment, transportation, accommodation, telecommunication, regional development and small and medium sized enterprises. A systematic rural development policy has not been able to establish in spite of the early initiation of rural development activities applied since the foundation of Turkish Republic. Political decision making in former rural development projects, the selection of geographical areas to be funded in a non-objective way, agriculture-oriented concept, failing to encourage the participation of the non-governmental organizations and public in the process and the difficulties experienced in the manufacturing and efficiency are among the primary reasons for the current situation. European Commission shall fund Turkey through IPARD, one of its political and funding instrument for agriculture and structural development, including the period 2007-2013 and with this step Turkey will enter a new process in which she can have new opportunities and take funds under the title of rural development for the very first time.

FINANCIAL POLICIES ON RURAL DEVELOPMENT

The concept of “Rural Development” frequently comes to the agenda in different fields for variety of purposes. In the fulfillment of the rural development activities having a multi-dimensional structure and necessary for the economical and social development, the policies focused only on the agriculture are not sufficient. Because of the division of the agricultural fields avoids their use for income generating purposes, high agricultural population, aggressive use of the natural resources and the low VAT (value added tax) value

of the agricultural production in the developing countries; the rural residents incline to other income-generating activities or tend to immigrate to the big cities. At this point, states should provide financial aids such as credits or direct income support for the farmers and they should finance the multiplication of the other economical activities besides agriculture. At this point, in order to develop proper policies the rural areas in Turkey should be classified and analyzed.

To build the rural development, first of all these areas should be determined. Once the rural areas in Turkey are classified in line with OECD criteria, we can see that “completely rural areas” are generally located in disadvantaged eastern cities. However rural areas can also be seen in both eastern and even the most developed western regions of the country. In terms of production, “Rural areas” are considered as the areas composing alternative production resources besides the province and district centers (DPT 2006). The related statistics has shown that almost 35% of the population resides in the rural areas. But taking into consideration the so-called province and district centers having a city status although where the employment and economy depend on the agriculture, living conditions of rural areas are observed and the industrial development is really slow, we can easily say that almost more than half of the population is currently living in rural areas in the country. These areas cover a large geographical surface and they have different physical characteristics and a variable economical structures. Therefore a different policy should be developed for each region.

Figure 1. Classification of the Rural Areas in Turkey in line with OECD criteria



Reference: TKİB, IPARD Programme, 2008

It is an undeniable fact that there are both structural, social and political deficiencies to be worked on in rural areas. These deficiencies can be mentioned as in the following:

- Deficiency and lack of proficiency of the institutions analyzing the requirements,
- The lack of monitoring councils that can evaluate the influence and quality of the application of rural development programs,
- Profound regional inequalities observed in the agricultural production of the developing areas and the quality of manufactured products,
- Fragile social and economical structure in the rural areas,
- The consumption of clear water resources due to the excessive use of water in agriculture,
- Weak formations of public and non-governmental institutions

The rural development has been identified as a driving force for the economy since the foundation of the Republic in Turkey where most of its population lives in rural areas. The other characteristics of the country and lots of complicated problems in these areas have inevitably carried the rural development among the

most crucial political issues. However, theoretically efficient policies can not get the expected achievement in practice. There will be significant changes in the approaches and applications in the aspect of rural development beginning from the negotiations of Turkey's Accession to EU on September 3, 2005 (Can 2007). The opportunities emerging from these changes should be evaluated quite well. Turkey will be able to benefit from the financial support supplied by means of Rural Development Component (IPARD) of Pre-Accession Assistance Instrument (IPA) for candidate countries by EU between 2007 and 2013. IPA has been designated in order to improve the efficiency of the planning and distribution process of EU financial aids (Tan and Dellal,2003). IPA will support the adaptation studies of the candidates and potential candidate countries to the EU standards, policies and union acquis within the membership perspective as it is applied within the financial aid programs beforehand. With these financial instruments EU aims to decrease the differentiation between the members to the minimum level while ensuring the readiness of the candidates-to-be for the full membership in order to fulfill the economical integration for its basic political objective.

Taking into consideration the financial dimension of the supports to be given to Turkey before the accession within the scope of the IPA fund, it can be observed that the approximately 600 million Euros financial supports will be granted per each year over a 5-year period in 2007-2011 for 5 basic components (Table 1). In addition to this, most of 3 billion Euros (39%) has been assigned to the Transitional Process Aid and Organizational Structure components; Regional Development Component follows that with a ratio of 35% and then the Rural Development component with a ratio of 15%(Bakırcı 2008). Thus the least allowance is reserved for the Cooperation in the Borderline (%1.5). The candidates should meet some administrative and legal requirements in order to benefit from the financial support of IPA fund. While there is flexibility about the support from the first 4 components of IPA, the 5th component of Rural Development (IPARD) has a different nature. IPARD requires a different practice and programming mechanism for the projects to be funded within this component(Dıraor,2008). In other words, it is necessary to complete all administrative and legal requirements in order to obtain the support from this component aiming the development of agriculture and rural areas and the fulfillment of EU standards.

Table: 1 Turkey's Multi-Annual Indicative Financial Frame Budget (Million Euro)

Component	2007	2008	2009	2010
1. Transitional Aid and Institutional Capacity	252.2	250.2	233.2	211.3
2. Cross-border Cooperation	6.6	8.8	9.4	9.6
3. Regional Development	167.5	173.8	182.7	238.1
4. Human Resources Development	50.2	52.9	55.6	63.4
5. Rural Development	20.7	53.0	85.5	131.3
TOTAL	497.2	538.7	566.4	653.7
Regional and Horizontal Programs	100.7	140.7	160.0	157.7

Reference: EU Commission, 2006: IPA 2008-2010 multi-annual indicative financial frame budget

Appropriate financial support shall be granted for the farmers and enterprises through the projects to be developed by means of the Rural Development Component. Although the financial supports are given by the EU within IPARD program, an equal contribution system works to cover expenses arising from the project. A triple system is used for funding the projects. This structure is composed of EU, National Contribution and the beneficiaries. The beneficiaries should meet %50 of these expenses. %25 of the remaining amount is stemming from the national resources. Therefore while constructing the administrative structures regarding the monitoring, supervising and payment processes, the transparency and accountability should be given the utmost importance. The beneficiaries should provide the share assigned for themselves within the project and they should make sure to have the financial structure to be able to meet all the expenses at the beginning with the awareness of that the EU support is completed. Analyses of the former EU countries benefited from the SAPARD program that has the similar structure with IPARD program indicated that the is granted after the project nonfunctional agricultural credit system and the difficulties confronted by the agricultural

manufacturers in taking credits from the banks have created bottlenecks for the countries in question (Nikolova,2005). Furthermore, the problems are caused by the incapability of the Commission in planning. This comment is significant because it points out that the Commission could not manage to give sufficient information about SAPARD program (Kasprzak 2005). In order to share the experiences gained by Central and Eastern Europe Countries (MDA) in the management of the rural development funds, we need to study carefully the contents of adopted measures and projects as well as the relations between activity fields and the budget applied in SAPARD programs by the said countries. Selection of the most primary measures and secondary ones in accordance with the requirements from the fields defined as fundable within the scope of SAPARD plan can be observed as the first step determining the capacities of rural development funds of the countries (Diraor 2008). As indicated in Table 2, the resources allocated from the Commission's budget between 2000 and 2006 was 529 million Euro. Within the scope of the program, 10 MDA countries have been donated totally 3.640 million Euro as resources. According to this, Poland and Romania have been granted the highest allotment while Slovenia, Estonia and Slovakia have been given the lowest.

Table 2. Annual EU Allotments Granted to MDA Countries between 2000 and 2006 (Euro, According to the prices of 2000)

Beneficiaries	Total	The Allotment donated in accordance with the measures in SAPARD Plan	Item 7 (Commission Aid up to 2%)
BULGARIA	53.026.146	52.033.785	992.361
CZECH REPUBLIC	22.444.860	22.024.814	420.046
ESTONIA	12.347.063	12.115.993	231.070
HUNGARY	38.712.627	37.988.137	724.490
LETONIA	30.345.271	29.777.373	567.898
LITHUANIA	22.226.138	21.810.186	415.952
POLAND	171.062.514	168.391.050	3.211.464
ROMANIA	153.243.162	150.375.284	2.867.878
SLOVENIA	6.446.679	6.326.032	120.647
SLOVAKIA	18.605.540	18.257.346	348.194
TOTAL	529.000.000	519.100.000	9.900.000

Reference:EC(2000)

At this point the experiences of the MDA countries will be a guidance for Turkey before the membership. We can assume that the problems confronted by Bulgaria during the process is similar to the problems of Turkey. Therefore, it will ease the realization of the required regulations and organizations through these experiences for Turkey.

The SAPARD Experience of Bulgaria

It is notable that Bulgaria has 81% rural areas in total and 42% of the population is rural residents. Studying the example of Bulgaria, approximately 53 million Euro for SAPARD Program is assigned from Commission Budget annually. Annual average budget of the program together with the national contributions is 115 million Euro. The basic objectives in the SAPARD program of Bulgaria are :

- To improve an efficient and sustainable agricultural production and to promote the food processing standards to the EU standardizations by means of the latest technology, better market facilities and strategical investments,
- To ensure rural development depending on alternative employment opportunities and the best enviromental methods.

Within the frame of these objectives, the following fields and activity types have been given priority in Project selection:

Priority 1: The improvement of the production, processing and marketing of agricultural, forestry and aquacultural resources and the encouragement of eco-friendly farms and environmental conservation

Priority 2: Integrated rural development aiming the protection and reinforcement of rural economy and rural areas

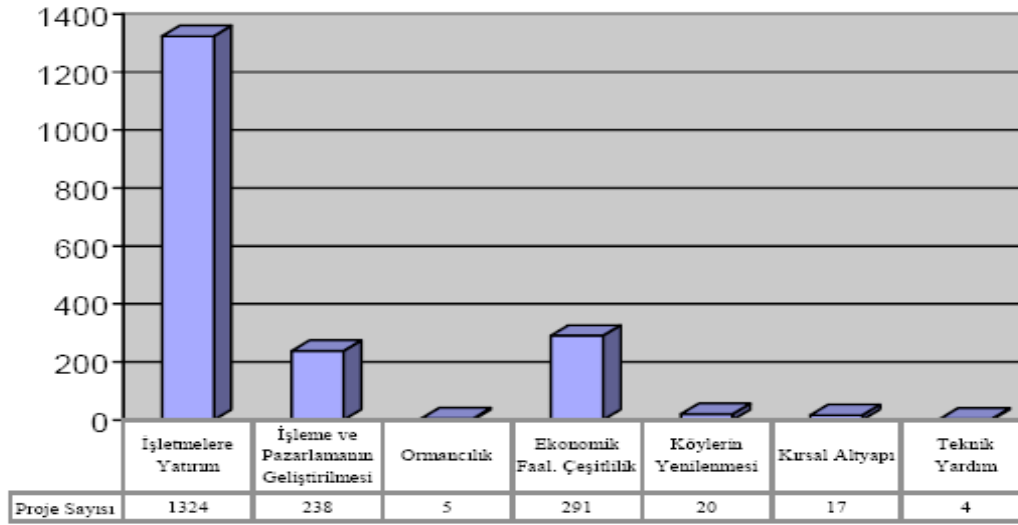
Priority 3: Investment in the human resources

Priority 4: Technical Assistance

According to the EU requirements Bulgaria throughout the process had severe problems in insufficient information transfer of the beneficiaries about the applications, low quality of risk analyses, use of second-hand materials and their registration as brandnew materials. At this point, Bulgaria has achieved its priorities and progressed to the Project level by taking into consideration the recommendations of EU for the solution of the problems on the necessity of the writing all the procedures in details, the meticulous duty assignment, the use of four-eye principle in each Project, ensuring the independency at the work of internal inspection unit, monitoring and reporting data's covering not only the numbers but also the detailed information on the subject, close cooperation with EU Commission and the cooperative work between the ministries and local institutions.(Kaşıkçı 2009).

1909 projects with total amount of 768.878.208 Euro was accepted according to the figures of the year 2005. 1.324 projects on "Investment on Agricultural Enterprises", 291 projects on "Diversification of Economical Activities" and 238 projects on "Improvement of Processing and Marketing the Agricultural and Aquacultural Products" were accepted in line with the related measures (Miroslava 2005).

Figure 2. The number of Projects of Bulgaria Within the Frame of SAPARD Measures



Kaynak: Bulgaristan Tarım ve Orman Bakanlığı, Proje Veri Tabanı, Nisan 2005.

The investments that are quite difficult for Bulgaria without the assistance of SAPARD had great roles in its adaptation to the EU standards in terms of animal welfare, hygienic conditions, environmental conservation and phytosanitary of the sector. These investments made an increase in the interest of the investors to the agricultural products. Moreover, establishing management mechanisms regarding the funds had great significance to acquire information and experience for the country about the structural fund management before and after the membership to EU programs. The management approach based on the partnership established on the course of the program is one of primary factor in the efficient and successful application of the program. The most important problem of the program during the first two years is the insufficient number of project applications. However, comparing with the other countries Bulgaria can be mentioned among the countries that applied the program in the most proficient way. In general, the rural development policies applied in the country are quite successful examples.

Turkey IPARD Programme

In Turkey, capital accumulation is generally not high at the rural areas since the early years. Thus, beneficiaries may have difficulties because of the equal funding principles within the scope of IPARD. Therefore these projects and their locations are offered to the international financial institutions in accordance with the principles determined for the “development priority regions” in the development plans and in line with the preferences and priorities of these institutions (Gülçubuk 2006). The achievement of the rural development projects are confined due to the funding and organization problems. Besides, the state should make contributions for spreading the program in larger areas by supporting the farmers having the designated criteria but failing to apply because of the lack of the necessary capital. It is important that reasonable credit opportunities should be provided by especially the state banks in order to get over with this problem.

Currently, it is certain that 290 million Euros will be assigned for the agricultural rural areas as a donation source from EU funds between 2007 and 2011. Moreover the amount will be nearly 600 million Euros including the state and beneficiary contribution for the said period. This source is significant for the rural enterprises having capital difficulties. Analyses of the IPARD program within the scope of precautions indicates that the investments in this field will have possible results such as the VAT provision for the agricultural products, modernization of the agricultural enterprises, variation of the economical activities, priority to the non-agricultural activities and encouragement of the micro enterprises.

Turkey has been changing its political path which was applied since 1963 to be able to use an EU fund with an amount of approximately 150 million Euro within IPARD and in this concept Turkey is expected to act according to the EU policies under the body of an administration completely determined by EU. Therefore it is necessary for Turkey to meet a lot of requirements in order to benefit from the IPARD funds between 2007 and 2013. Within the scope of the assigned resources in our country, the sectors will be supported in line with the conditions specified in IPARD plan. Thus, the sectors having priority are milk and dairy, meat sector, aquacultural products, fruit and vegetable sectors.

Fruit and vegetable sector is a strategical sector for Turkey. Since it is a labor oriented sector and it provides four times more value addition than the other agricultural sectors per each hectare. For that reason in Turkey the main resource of rural employment comes from the fruit and vegetable sector. This why other problems arise such as the great number of small enterprises, the increasing amount of losses in harvest and the assurance of quality, hygiene and food. Hence the measures for the solution of the problems in fruit and vegetable sector within the frame of IPARD program should be taken to promote these enterprises to the required economical size. Thus strong modern enterprises having the quality standards of the time will be able to be built.

Turkey has managed herself with her own resources without any significant exchange with the other countries in the dairy sector. The profound changes in the dairy product sectors in EU countries observed in the last decade have no effects on Turkey. As a result of this, there is no mutual understanding. Turkey is having difficulties to imagine what kinds of changes should be made. Today's member of EU Poland and Portugal experienced the same circumstances before their accession. However, these two countries have also restructured and modernized their own dairy products in a relatively very short time. Studying the procedures these countries have been through will be rather useful for the specialist of the field. The success of a dairy farming enterprises depends on enough and cheap feed, highly efficient cattle, skillful and well-informed managers and the existence of a regular raw milk market (Turhan 2005).

In dairy sector the latest improvements such as emerging of a dynamic and modern dairy industry allowing qualified production, introduction and marketing new dairy products in urban sites, encouragements for qualified dairy production and the inspection of the manufacturing and marketing processes have influenced the sector positively. However, we should not forget that there are still a great deal of small farms hardly holding in the business and the incompliance of the dairy houses to the required standards. Turkey having lower milk production and consumption level than EU average can not ignore the small farms and dairy houses. Therefore, these farms and dairy houses will be able to keep up with the required economical size and designated standards through the projects to be conducted under IPARD program as well as state encouragements and cooperatives.

In the policies regarding fishery the following issues will be taken into consideration in line with the EU acquis to be able to realize the followings: to establish a balance on the use of resources in hunting production through the studies on the inventory, to ensure the environmental sustainability of cultivating activities that are growing rapidly due to the provided supports and increasing demand and to make necessary

administrative changes in accordance with the specified objectives. Besides the legislation on “Organization of the Manufacturers” will be re-evaluated and so an organizational structure that will allow an increase in the efficiency and competitive power in marketing according to various goals of the manufacturers will be arranged. A new approach is set in order to benefit from the recent progresses in human resources and the funds on transportation and regional development: “To open “growing centers” towards a balanced regional development.” (DPT 2006). If it achieves, an appropriate model will be formed for fishery in the open sea projecting definite fishery ports where all the enterprises and entrepreneurs will come together in one place. Although Turkey is surrounded by seas from three sides and has 26.2 hectar water areas with its rivers, natural and artificial lakes, the share of the fishery sector in gross national product is just 40% and 3.5% in total agricultural production. Therefore, the sector having a high production potential and that has not been benefited enough so far should be immediately put in good use. Especially the high meat prices stemming from the high expenses should be turned into advantages for the sector. Turkey is far behind EU averages because of the insufficient production, the limited network of distribution and insufficient marketing activities.

In order to overcome these problems in the meat sector, 8 sustainable agricultural and rural development measures regarding the four aspects indicated in EU 2007-13 rural development policy within the scope of 2007-13 IPARD will be applied (ABGS 2009). The most significant problem of Turkey in the meat sector is the low consumption due to the economical expenses as well as the limitations on the import. Because, unlike the other sectors, the pressure of the competitive retail markets on the incomes of administrators and manufacturers, the number of the small enterprises decreases. This encourages the big and medium sized production facilities though it gives difficulties to the small enterprises. Thus, measures taking into consideration the small manufacturers during the changes in subvention programs should be in IPARD program to decrease high feed expenses and to avoid unregistered activities.

The contribution of poultry sector to the 2007-13 IPARD Plan has been developed kobion the negative factors and difficulties detected in the poultry sector as well as the current condition of rural areas in Turkey. The past activities and lessons learned by the government and the donaters have contributed to designate a strategical formulation. Thus the consumption of the chicken products has increased immensely due to the decrease in the meat products, increasing population and relatively low price of the chicken products. The domestic and foreign demands for the chicken products are still rising. The hygenic conditions at the small slaughterhouses and processing facilities, the instability in the regional production, the lack of manufacturer’s organizations, the immigration of the population from the traditional livestock areas are the weak points of the sector. Within Ipard prgram, we can gain the upper hand in the competition with the exporting countries by focusing on these sectors especially when the export ratio is going higher in these recent days.

RESEARCH DESIGN

The scanning of the litarature, researching, assesment of the related EU legislation and analyzing the examples from the past funding procedures of the member countries, statistical evaluation on fund collection and use, past rural development studies of Turkey and analyses on IPARD program have been used as the main methods of the study. Necessary structural and legal regulations for Turkey to solve the problem of rural development and then benefit from EU funds have been surveyed. Within this context the following methods have been used such as analyzing, synthesizing, interrelating the acquired data and interpreting the pursued policies and procedures as well as their social, economical and institutional outcomes. The examples of MDA countries where SAPARD has been applied and their post effects have been examined through this study. The experiences regarding EU rural development funds of Bulgaria which has the similar structure as in Turkey has been analyzed in detail. The primary sectors and regions, where these funds are going to be used, have been studied within the frame of IPARD program of the Ministry of Agriculture and Rural Affairs. Within this context the following methods have been used such as analyzing, synthesizing, interrelating the acquired data and interpreting the pursued policies and procedures as well as their social, economical and institutional outcomes.

CONCLUSION

IPARD program will ensure a stable and transparant political atmosphere focused on common objectives that are clearly explained to Turkish farmers and consumers. While establishing a rural development policy and high food safety, animal health and environmental standards on the one hand, on the other hand the competitive power between Turkish farmers and agricultural enterprises will be increased. Turkey will be able to be a part of a common market where half million consumers are and Turkish agriculture will

contribute to the improvement of the successful export sectors. Particularly the fruit and vegetable manufacturers will benefit from the free access to EU markets. The increasing competition will help decreasing the prices of the cereal and meat products, and this is expected to cause higher consumption ratio in domestic markets. Animal product consumption ratio per person in Turkey right now is 25. This ratio is only 40% or 60% of EU countries. In order to reach the required standards and increase the competitive power, Turkey will be granted a financial assistance in these sectors as in the same way applied in EU countries.

In conclusion, the pre-accession support funds have quite significant roles in the rural development and the adaptation process of Turkey to EU. However the amount of the fund which Turkey can benefit from is approximately 1/20 of the resources required for the rural development. Thus, it will be misleading to suppose these funds alone will solve all the problems in rural areas. Turkey has no experience in the use of the funds. Thus, the funds and procedures conducted by the recently member countries before their accession process shall guide Turkey about the situation. Taking into consideration all these aspects, our rural development policy should ensure the necessary amount of fund from our own budget while including EU rural development policies and having a structure allowing problem solving in line with the realism of the country. The performance conducted by Turkey shall be essential for the definition of the changes in a positive or negative way.

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FORECASTING TURKEY'S NATURAL GAS CONSUMPTION BY USING TIME SERIES METHODS

Mustafa Akkurt
Turkish Airlines, Turkey

Omer F. Demirel and Selim Zaim
Fatih University, Turkey

ABSTRACT

Strategic energy planning processes, which include natural gas demand, are commonly used as a tool to design the regional and local energy system and encourage renewable energy development. The oil and natural gas market plays a very important role in the strategic energy planning process in a country. In recent years, natural gas consumption has become the fastest growing primary energy source in Turkey. In this study, natural gas consumptions of Turkey in different time periods are forecasted by using various time series methods such as exponential smoothing, winters' forecasting and Box-Jenkins methods. These methods are compared with each other in terms of the superiority in forecasting performance. The findings reveal that in the yearly data set, double exponential smoothing model outperforms the other alternative forecasting models. On the other hand, in term of monthly data set, SARIMA model provides the better results than the others.

1. INTRODUCTION

Energy is one of the most important inputs required to maintain social and economical improvement in a country. It is necessary that energy demand should be performed at the right time economically, and be of good quality and respectful of increasing environmental consciousness in order to preserve national development and a high standard of living. Natural gas is an alternative energy source that has cleanliness, burning easiness, high thermal value and resource availability (Aras and Aras, 2003). All over the world, the use of natural gas is projected to nearly double between 1999 and 2020, providing a relatively clean fuel for efficient new gas turbine power plants. The largest increases in gas use are expected in Central and South America and in developing Asia, and the developing countries as a whole are expected to add a larger increment to gas use by 2020 than are the industrialized countries.

Turkey is located at a strategic place between the Middle and Near East, where rich oil and natural gas reserves prevail, and the Western world, where the main energy consumption takes place. Turkey is also situated near the Caspian Sea, where natural gas and oil production are expected to increase substantially. Turkey has made a remarkable contribution to the stability of the region and still continues to maintain this policy. It is accepted that creating a balanced international cooperation setting is an important factor for acquiring more reliable energy supply (Ozturk and Hepbasli, 2003).

Turkey is an important candidate to be the "energy corridor" in the transmission of the abundant oil and natural gas resources of the Middle East and Middle Asia countries to the Western market. Furthermore, Turkey is planning to increase its oil and gas pipeline infrastructure to accommodate its increased energy consumption. Naturally, Turkish natural gas usage is projected to increase remarkably in coming years, with the prime consumers, expected to be industry and power plants (Kilic, 2006). Turkish energy consumption has risen dramatically over the past 20 years due to the combined demands of industrialization and urbanization.

The usage of the natural gas can be classified into 3 groups; the residential users, the industrial users and the commercial users. The demand characteristics of these three categories differ significantly. The residential customer demands are typically temperature sensitive, increasing on weekends. The commercial customers are also typically temperature sensitive, but decreasing on weekends. Industrial customer demand is much less temperature sensitive, decreasing significantly on weekends. Historically, many methods have been used to predict daily demand. Gas controllers have used methods such as looking at use patterns on similar historical days and scatter plots of use versus temperature.

Forecasting the natural gas demand is important for planning gas production and transmission. The challenges of this forecasting are the volatility of consumer profile, the strong dependency on weather conditions and the lack of historical data (Viet and Mandziuk, 2000).

2. FORECASTING NATURAL GAS CONSUMPTION

There is wide range of studies about forecasting natural gas consumption in the literature. Liu and Lin (1991) estimated the residential consumption of natural gas in Taiwan by using linear transfer function method. Khotanzad et al. (2000) has used the artificial neural network (ANN) forecasters with application the prediction of daily natural gas consumption needed by gas utilities. Gumrah et al. (2001) analyzed the factors and their relationships that influencing the gas consumption in Ankara, and they suggested a model based on degree-day concept including annual number of customers, average degree days, and the usage per customer. Sarak and Satman (2003) forecast the residential heating natural gas consumption in Turkey by using degree-day method. Aras and Aras (2003) have described an approach to obtain appropriate models for forecasting residential monthly natural gas consumption in terms of time series analyses and degree-day method. Viet and Mandziuk (2003) analyzed and tested the several approaches to prediction of natural gas consumption with neural and fuzzy neural systems for natural gas load in two different regions of Poland. Siemek et al. (2003) implemented the Hubbert model based upon Starzman modification to describe the possible scenario of the development of the Poland gas sector. Liu et al. (2004) used the support vector regression (SVM) technique for natural gas load forecasting of Xi'an city, and they compared the result with the 7-lead day forecasting of neural network based model. Gil and Deferrari (2004) presented a generalized model which predicts mainly the residential and commercial natural gas consumption in urban areas of Argentina, for the short and intermediate ranges of time. Brown et al. (2005) presented the mathematical models for gas forecasting in their study. Al-Fattah (2006) presents a methodology for developing forecasting models for predicting U.S. natural gas production, proved reserves, and annual depletion to year 2025 using time series modeling approach. Ivezic (2006) showed the results of investigation of an artificial neural network (ANN) model for short term natural gas consumption forecasting. This methodology uses multilayer artificial neural networks to incorporate historical weather and consumption data. Wong-Parodi et al. (2006) compared the accuracy of the forecasts for the natural gas prices of Energy Information Administration's short term energy outlook and the futures market for the period from 1999 to 2004. Potocnik et al. (2007) proposed a strategy to estimate forecasting risk of natural gas consumption in Slovenia. This strategy combines an energy demand forecasting model, an economic incentive model and a risk model. Sanchez-Ubeda and Berzosa (2007) presented a model based on decomposition approach to capture demand patterns in a very large number of different historical profiles. Ediger and Akar (2007) used ARIMA and SARIMA methods to estimate the future primary energy demand of Turkey from 2005 to 2020. Kızılaslan and Karlık (2009) used seven neural networks algorithms as forecasting models they tried to find the best solution on forecasting of monthly natural gas consumption

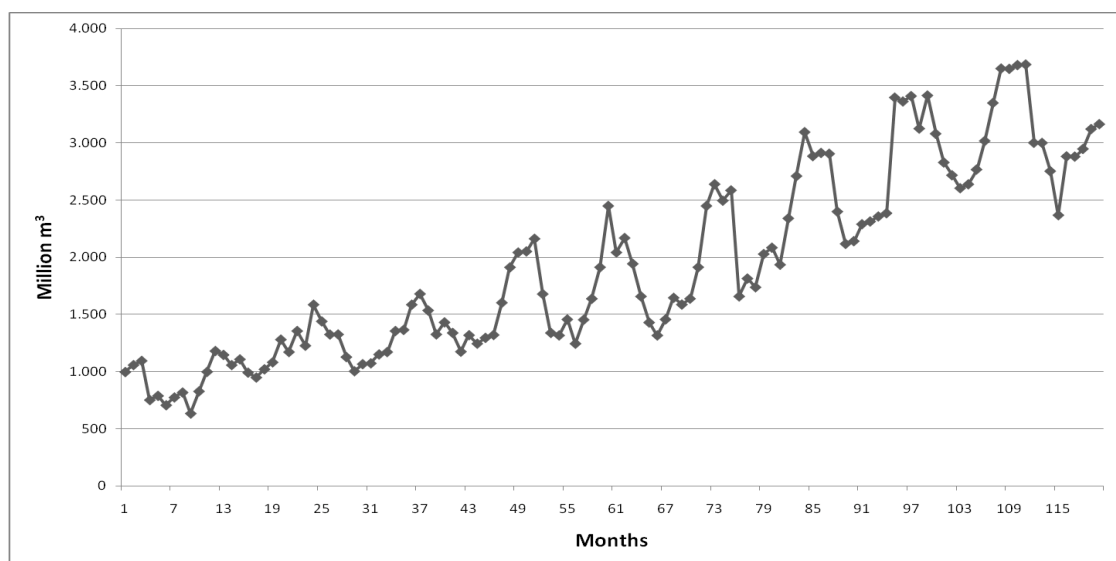
3. THE RESEARCH STUDY

The analyses used in this study are conducted in two stages. First stage involves monthly forecasting analysis based on a various time series models. In the second stage, yearly data set has been considered to forecast the natural gas consumption in Turkey. Finally, these time series methods are compared with each other in terms of the superiority in forecasting performance. Data set was collected from the state-owned Turkish Pipeline Corporation (BOTAS) and International Energy Agency (IEA). All these stages are explained in the following subsections.

3.1 Monthly Natural Gas Consumption of Turkey

In this part of study monthly natural gas consumption data of Turkey are taken into account. The consumption values were provided by International Energy Agency (IEA) from 1999 to 2008. In total 120 data points are observed. When we plot the monthly natural gas consumption of Turkey, it exhibits seasonality and increasing trend as clearly seen in Figure 1. Like other natural gas consumption data sets, the consumption values are increasing in winter months and decreasing in summer months. As Turkey's total natural consumption is growing the data has an increasing trend.

Figure 2 Monthly natural gas consumption of Turkey from 1999 to 2008 (IEA)



3.1.1 Forecasting Monthly Natural Gas Consumption with Exponential Smoothing Type Methods

SmartForecasts software is utilized for a search on forecasting methods. The data values from years 1999 to 2007 were used. The consumption values of 2008 were used for testing the selected forecasting method. The results obtained from SmartForecasts are given below in Table 1.

Table 1 SmartForecasts results

Rank	% Worse	Avg Error	Forecasting Method
1	(winner)	160.10	Winters' Multiplicative, weights = 26% 26% 26%
2	33.8%	214.21	Winters' Additive, weights = 54% 54% 54%
3	37.1%	219.49	Simple Moving Average of 1 periods
4	37.4%	219.93	Single Exponential Smoothing, weight = 97%
5	76.2%	282.05	Double Exponential Smoothing, weight = 69%
6	82.4%	292.01	Linear Moving Average of 12 periods

Winters' multiplicative method with weights 0,26; 0,26; 0,26 is suggested by SmartForecasts for monthly data. The forecasts for 2008 are presented in Table 2.

Table 2 Winters' multiplicative method forecasts

2008	Real	Winters	Lower Limit	Upper Limit	Error
January	3647	3,831	3,480	4,182	184
February	3680	3,622	3,261	3,982	-58
March	3685	3,574	3,202	3,945	-111
April	3001	2,874	2,491	3,258	-127
May	3000	2,579	2,182	2,975	-421
June	2753	2,442	2,031	2,852	-311
July	2368	2,552	2,127	2,977	184
August	2882	2,576	2,135	3,017	-306
September	2880	2,557	2,100	3,015	-323
October	2947	2,778	2,303	3,252	-169
November	3121	3,241	2,749	3,733	120
December	3164	3,657	3,146	4,167	493
				MAD	234

3.1.2 Forecasting Monthly Natural Gas Consumption with Seasonal Autoregressive Integrated Moving Average (SARIMA) Model

We have generated Box-Jenkins SARIMA model for forecasting monthly natural gas consumption of Turkey in 2008. We have also used the consumption values from 1999 to 2007 to form the SARIMA model. SPSS time series function module is utilized.

SPSS Time Series function recommends SARIMA (0,0,2)(1,1,0) model. The model constant is estimated as 263,224 where as MA(1) parameter estimate is -0,473 and MA(2) is -0,471. Seasonal AR(1) parameter estimate is -0,425. The forecasts obtained from SARIMA model are given in Table 3. SARIMA has slightly better MAD value than Winters' multiplicative method and unlike Winters all the real values are in forecasted limits. (The consumption value of May was out of the Winters forecasted limit.) SARIMA should be selected for forecasting method to predict monthly natural gas consumption of Turkey.

Table 3 Forecasts of SARIMA Model.

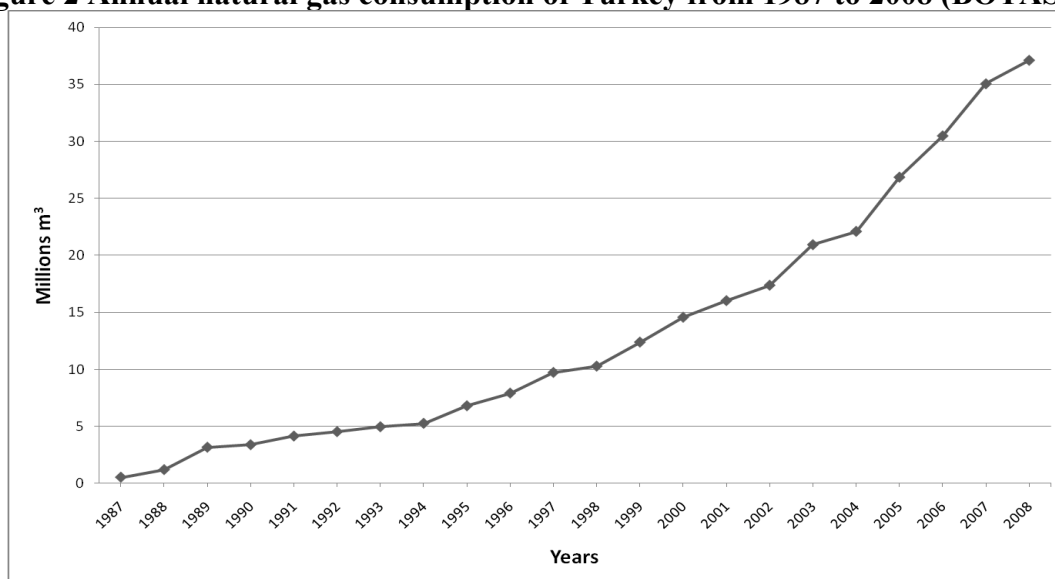
2008	Real	SARIMA	Lower Limit	Upper Limit	Error
January	3647	3,364	2,889	3,839	-283
February	3680	3,323	2,746	3,900	-357
March	3685	3,332	2,683	3,982	-353
April	3001	2,971	2,321	3,621	-30
May	3000	2,715	2,065	3,365	-285
June	2753	2,625	1,975	3,274	-128
July	2368	2,553	1,904	3,203	185
August	2882	2,586	1,936	3,236	-296
September	2880	2,701	2,051	3,351	-179
October	2947	2,916	2,266	3,565	-31
November	3121	3,357	2,707	4,006	236
December	3164	3,604	2,954	4,254	440
				MAD	233.64

3.2 Annual Natural Gas Consumption

Turkey's need for energy sources is growing fastly therefore total natural gas consumption has risen rapidly in the last 20 years. Annual natural gas consumption values from 1987 to 2008 are provided by BOTAS (Turkey's petroleum and natural gas pipeline corporation).

The plot of annual natural gas consumption data shows an obvious increasing trend and no seasonality in Figure 2. Trend analysis would be meaningful to explore future expectations about annual natural gas consumption of Turkey.

Figure 2 Annual natural gas consumption of Turkey from 1987 to 2008 (BOTAS)



3.2.1 Forecasting the Annual Natural Gas Consumption of Turkey with Trend Analysis

Trend analysis can be done with different ways in time series models. Commonly used models are linear trend model and quadratic trend model. Linear trend model accounts for linearity in the trend. Quadratic trend model accounts for curvature in the trend. In this research also double exponential smoothing is investigated for forecasting annual natural gas consumption of Turkey. More over double exponential smoothing's level and trend parameters were optimized in MINITAB software. The error values of all three models are listed in the Table 4.

Table 4 Error values of different models

Methods	MAPE	MAD
Regression	57	2.042
Quadratic Trend	25	676
Double Exponential Smoothing with 0,23 and 3,43 weights	13	676

The mean absolute percentage error (MAPE) and the mean absolute deviation (MAD) values of quadratic trend and double exponential smoothing are lower than linear regression in Table 4 therefore, quadratic trend and double exponential smoothing are appropriate models for forecasting.

We use consumptions from 1987 to 2006 for forming the model and forecast 2007, 2008 consumptions for testing the model. The SmartForecasts software is used to forecast the annual consumptions of 2007 and 2008. SmartForecasts runs automatic search to select forecasting method with minimum error and proposed double exponential smoothing method with both 0,71 weights as the best method. Forecasts of double exponential smoothing and quadratic trend for 2007 and 2008 are shown below in Table 5. Note that LL is lower limit and UL is upper limit of forecasts.

Table 5 Forecasts for 2007 and 2008

Years	Real	Quadratic Trend	Error	DES (0,71; 0,71)	UL	LL	Error
2007	35,064	31,842	-3,222	34,031	36,440	31,623	-1,033
2008	37,128	34,928	-2,200	37,864	40,922	34,805	736

MAD 2,711

MAD 884

The forecast values demonstrated that double exponential smoothing method has minimum MAD value and acceptable lower and upper limits. We suggest double exponential smoothing model to make long term forecasts.

For further improvement, we made a parameter search on double exponential smoothing. For level and trend constants we have tried parameters values of 0,2; 0,4 and 0,6. The results in Table 6 have shown that parameter values of (0,6; 0,6) combination has a lower MAD value than others.

Table 6 Parameter search on double exponential smoothing

DES		MAD
Level	Trend	
0.2	0.2	7811
0.2	0.4	5826
0.2	0.6	3635
0.4	0.2	4482
0.4	0.4	2754
0.4	0.6	2001
0.6	0.2	3019
0.6	0.4	1671
0.6	0.6	866

In Table 7 the limits and MAD value of (0,6; 0,6) parametered model is compared with double exponential smoothing with (0,71; 0,71) parameters. Here also Double exponential smoothing with 0.6 and 0.6 parameters has better MAD value. So we can take that model as our forecasting model.

Table 7 Comparison of double exponential smoothing models

DES (0.6; 0.6)						DES (0.71; 0.71)				
Year	Real	Forecast	LLr	UL	Error	Forecast	LLr	UL	Error	
2007	35,064	33,437	30,870	36,004	(1,627)	34,031	36,440	31,623	(1,033)	
2008	37,128	37,023	33,961	40,086	(105)	37,864	40,922	34,805	736	
					MAD				MAD	884

3.2.2 Forecasting the Annual Natural Gas Consumption with Autoregressive Integrated Moving Average (ARIMA) Model

As clearly seen in Figure 3, annual natural gas consumption of Turkey has an increasing trend. That makes the data non-stationary one. This kind of series must be transformed into stationary form in order to make time series analysis according to Box-Jenkins procedure.

Differencing is one of the transformation methods to make the data stationary. It is particularly useful for removing a trend. For non-seasonal data, first-order differencing is usually sufficient to attain apparent stationarity, so that the new series is formed from the original series by first-order differencing. Occasionally second-order differencing might be required (Chatfield, 1996).

Firstly, we take the first differences of the data series check whether the trend is removed by time plot and autocorrelation function (ACF). The slow decline of the ACF and the increase in time plot of first differences of data suggest that second differencing is required. Second difference of the data is plotted in Figure 3. The trend is removed and the stationarity is obtained. Its autocorrelation and partial autocorrelation function plots are also shown in Figure 4 and Figure 5 respectively.

Figure 3 Time series plot after second difference of annual natural gas consumption of Turkey



Figure 4 Autocorrelation function plot of second difference of annual natural gas consumption of Turkey

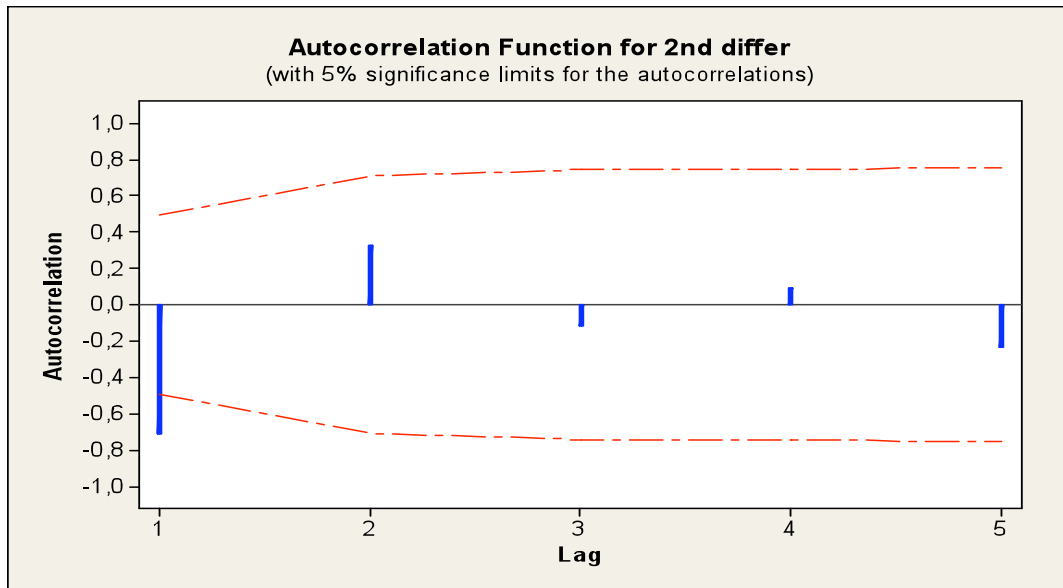
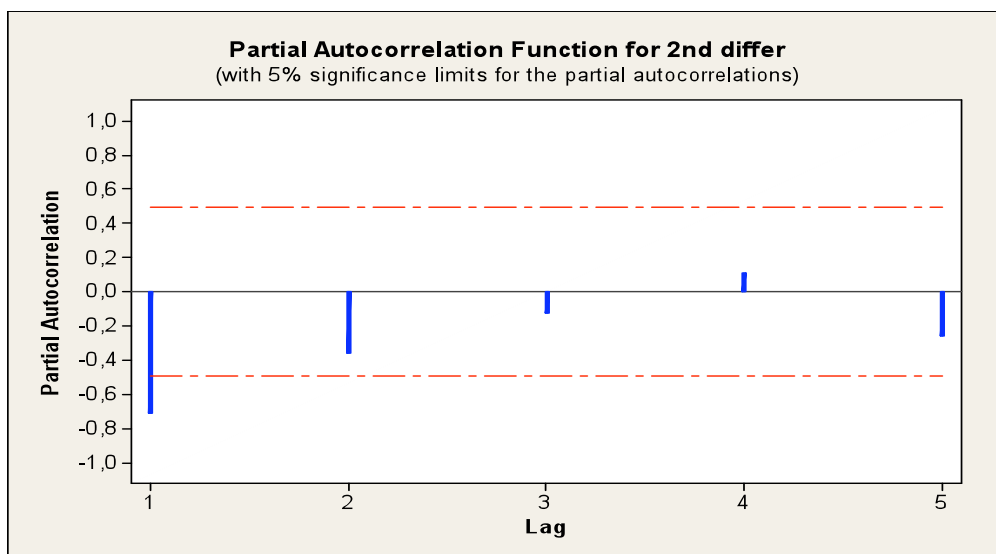


Figure 5 Partial autocorrelation function plot of second difference of annual natural gas consumption of Turkey



Order of autoregressive process of the ARIMA model is determined by the number of partial autocorrelation function coefficients. Similarly, order of moving average of the ARIMA model is decided by the number of autocorrelation function coefficients. The peak points of these functions show the order of models (Goktas, 2005). This approach is employed to find out the orders of annual natural gas consumption of ARIMA model. Autocorrelation function plot of the second difference in Figure 4 has the peak point at the first lag. Moving average order should be first order. Partial correlation function plot of second difference in Figure 5 has the peak at the first lag. So autoregressive process order should be first order for the model. As a result of that analysis, ARIMA (1,2,1) is decided to make annual natural gas consumption forecasts of Turkey. In order to check our findings we also run SPSS software. SPSS made an automatic search on the orders of ARIMA and suggested the ARIMA(1,2,0) model for annual gas consumption data of Turkey. Coefficients of both ARIMA models are listed in Table 8. We have compared forecasting performance of both models in Table 9. ARIMA(1,2,1) model is performing better than ARIMA(1,2,0) model in forecasting 2007 and 2008.

Table 8 Coefficients of ARIMA models

Model	Coefficients	
	AR(1)	MA(1)
ARIMA(1,2,0)	-0,708	
ARIMA(1,2,1)	-0,642	0,194

Table 9 Results of ARIMA models

Years	Real	ARIMA(1,2,0)	UL	LL	Error	ARIMA(1,2,1)	UL	LL	Error	
2007	35,064	34,920	37,080	32,760	-144	34,872	37,103	32,642	-192	
2008	37,128	38,782	42,311	35,253	1,654	38,725	42,331	35,119	1,597	
					MAD	899			MAD	894

Table 10 Comparison between ARIMA model and double exponential smoothing

Years	Real	DES (0.6; 0.6)	UL	LL	Error	ARIMA(1,2,1)	UL	LL	Error	
2007	35,064	33,437	36,004	30,870	-1,627	34,872	37,103	32,642	-192	
2008	37,128	37,023	40,086	33,961	-105	38,725	42,331	35,119	1,597	
					MAD	866			MAD	894

The ARIMA(1,2,1) model compared with double exponential smoothing in terms of forecast and limit values in Table 10. Double exponential smoothing with 0,60 and 0,60 parameters error value is lower than ARIMA(1,2,1). As a result, double exponential smoothing produces better long term forecasts than ARIMA for annual natural gas consumption of Turkey.

3.2.3 Forecasting the Last Four Years of Annual Natural Gas Consumption of Turkey and Comparing with Literature.

Ediger and Akar (2007) made a study about forecasting of primary energy demand by fuel in Turkey. They have used autoregressive integrated moving average (ARIMA) method to predict future primary energy demand of Turkey from 2005 to 2020.

One of the findings of Ediger and Akar is that natural gas will continue to be a key element of the Turkish energy system in the future. In order to understand the future changes, they forecasted the consumption values of natural gas period between 2005 and 2020.

This section of our study provides the comparison of forecast values between our study and the Ediger and Akar's study. Annual natural gas consumption data of Turkey from 1987 to 2004 is used. As our previous findings recommend double exponential smoothing we have used the same data and make forecasting with double exponential smoothing. Table 11 represents the comparison table of forecasts related to applied methods. Our double exponential smoothing forecasts were performed better than Ediger and Akar's ARIMA model for forecasting 2005 to 2008.

Table 11 Comparison table of methods

Methods	2005	2006	2007	2008	MAD
Ediger and Akar's Study Forecast	22,319	24,155	26,569	28,378	7,032
Double Exponential Smoothing Forecast	24,623	26,919	29,216	31,512	4,320
Real Values	26,865	30,493	35,064	37,128	

Double exponential smoothing with 0,41 and 1,37 parameters should be considered for forecasting years of 2005, 2006, 2007 and 2008.

4 CONCLUSION

Recently, considerable attention has been focused on the energy resources and energy policies in Turkey. Energy is one of Turkey's most important development priorities. Natural gas consumption is the fastest growing primary energy source in Turkey. Turkish natural gas is projected to increase dramatically in coming years. Energy planning is not possible without a reasonable knowledge of past and present natural gas consumption and likely future natural gas demand. Overestimating the natural gas demand may cause redundancy in resources, while underestimating may cause series energy crises. Therefore forecasting the gas demand became very important aspect to manage the energy policy with respect to gas consumption and use in Turkey.

Time series forecasting is one of the most important quantitative model that has received considerable amount of attention in the literature. The accuracy of time series forecasting is fundamental to many decision processes and hence the research for improving the effectiveness of forecasting models has never stopped. With the efforts of Box and Jenkins, the ARIMA, exponential smoothing and SARIMA models have become one of the most popular and traditional methods in the forecasting research and practice.

In this study, natural gas consumptions of Turkey are forecasted by using various time series methods such as exponential smoothing, Winters' forecasting and Box-Jenkins methods in a monthly and yearly base. These methods are compared with each other in terms of the superiority in forecasting performance. The findings reveal that in the yearly data set, double exponential smoothing model gives the better results than the other alternative forecasting models. On the other hand, in term of monthly data set, SARIMA model provides the better results than the others. However, this study does not claim that double exponential smoothing and SARIMA models are superior to other alternative forecasting methods.

In future study, more sophisticated analytical techniques such as genetic algorithms, neural networks, and fuzzy models must be utilized to forecast the natural gas consumption in Turkey. In addition that it will be very valuable to add some other variables such as price and weather temperature when developing and improving the forecasting model. This study can be extended by measuring the relationship between gas consumption of Turkey and gas price and weather temperature and their influence on gas consumption.

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CURRENT ENERGY STRATEGY OF TURKEY AND EASTERN EUROPEAN COUNTRIES AND NUCLEAR ENERGY

Sudi Apak and Güngör Tuncer
Beykent University, Turkey

Erhan Atay
Trakya University, Turkey

ABSTRACT

Nuclear energy has historically played a significant role in the development of raw materials, techniques and skills. Nuclear energy has been used to produce electricity for more than half a century. Eastern European Countries experienced remarkable changes along with the collapse of the centralized socialist regimes in 1989. In this article, our aim is to examine the future of nuclear energy in Eastern Europe and Turkey by taking into consideration of the consumption patterns, price fluctuations and environmental pressures as their significance has been increasing constantly due to the rising energy demand.

Turkey's energy strategy concentrates mainly on ensuring a supply of reliable, sufficient, economic and clean energy in due course of time and in a way to support the targets of growth and social development. Increasing world energy demand requires serious decision-making on whether or not to build new nuclear power plants. Considering this fact, Turkey is planning to erect 2–3 nuclear plants (10,000 – 15,000 MW) because the expected energy consumption patterns are likely to impose unbearable economic burdens and environmental problems. Consequently, this paper elaborates on the economic initiatives and capabilities of Eastern European countries in terms of nuclear energy.

Key Words: nuclear economics, Eastern Europe, technological innovation, Turkey

INTRODUCTION

Nuclear energy is a strategic choice that takes shape according to the governments' quality and quantity targets. Technological progress plays a central role in the modern economy. Innovation is the process of introducing new scientific as well as engineering knowledge to serve a market demand in new and better ways.

Although from time to time advocates deplore the inattention of government to one's favorite technology, it is a fact that energy has produced some impressive innovations and this means that energy innovations must make economic sense.

Nuclear energy is one of the major sources of energy supply in the world constituting about one-sixth of total electricity generation. Theoretically, the performance associated with any aspect of constructing or operating a nuclear power plant affords some degree of economic consequence. Therefore, one could conclude that any measure of nuclear performance, in one way or another, can be construed as being economic.

World energy consumption is expected to increase to 22G toe per year in 2050, from the current 10G toe per year. Fossil fuels provide 70% of this total (coal and oil 26% each, natural gas 18%) and non-fossil sources 30% are shared almost equally between renewables and nuclear energy.

The required technology to build nuclear power plants was mastered in sixties and seventies in the world. Nuclear power plants which were built or licensed to be built in that period but were completed later, are operating today and produce electricity at comparable cost to coal, natural gas or hydroelectric power.

Due to the technological advances, the new generation of nuclear power plants are cheaper to build, the electricity generated is cheaper than that generated through many other methods, safer to operate and creates no carbon-dioxide emissions.

As regards energy sources, the situation differs from country to country. For example, the development of nuclear energy in the Eastern Europe region cannot be understood without taking into consideration the role of the former Soviet Union. Globally, if the capital cost were around US\$1000/kW or less, then the financial burden would be much less than current nuclear technologies, and this would ease the launching of nuclear power programs, especially in developing countries. The innovative nuclear reactor technologies should focus on decreasing capital cost, without compromising safety.

TECHNOLOGICAL INNOVATIONS AND NUCLEAR ENERGY

Developing innovative energy technologies and approaches through science and technology R&D is widely seen as a key to reducing the role of energy sector as a driver of climate change.

Technological innovation is a process that extends from the R&D stage to full commercialization. A finance continuum demonstrates the stages of technological innovation, the types of finance required at those stages and the areas where financing gaps exist. Innovative public financing approaches can close the financing gaps for technological innovation throughout the entire continuum.

Technological innovation will continue to be essential in the energy system for both economic and public policy reasons. The process of innovation is typically incremental, cumulative, and assimilative. Innovation may produce revolutionary outcomes through the accumulation of small steps, or because it introduces new performance characteristics that the market values.

Experience with energy innovation suggests that government intervention works best when it is carefully targeted on specific obstacles. Technological innovation has long been a central characteristic of the energy system. Widespread diffusion of nuclear energy technologies depends on a successful chain of R&D, demonstration, deployment, and cost reduction before a technology becomes commercially viable.

There is a great need for technological innovation for energy efficiency, renewables, and the cleaner use of fossil fuels in the developing countries. Technological operating environments in these countries are often distinctly different from those of industrialized countries. For example; most developing countries are in the early stages of infrastructure development. They have enormous demands for basic materials and need innovative technologies that will facilitate infrastructure development (Turkenburg, 2002: 154).

On the other hand, in industrialized countries, by contrast, the demand for basic materials is reaching the saturation point, and there is little need for fundamentally new technologies for basic materials processing.

Despite the challenges it faces, nuclear energy technology is an important opportunity for the world economy to meet the future energy needs without emitting carbon dioxide (CO₂) and other atmospheric pollutants. Nuclear energy is a significant contributor to the world's energy supply, which represents approximately %6 of ultimate amount of energy utilized and %16 of the world electricity capacity. Nuclear power is projected to be expanded in the future, but this expansion could be hampered due to the public perception, policy and economy.

At the same time, world energy demand is expected to rise sharply in the next 50 years, presenting all countries in the world with a real challenge: how to provide energy needed to stimulate the economic growth and improve social development, while simultaneously addressing the environmental protection issues.

Nuclear energy can therefore become an important "sustainable" source of hydrogen. R&D into the use of nuclear energy to produce hydrogen is being conducted in a number of countries and through several international agencies.

EXPERIMENTAL

Nuclear energy in Turkey

Turkey's energy strategy concentrates mainly on ensuring a supply of reliable, sufficient, economic and clean energy in due course of time and in a way to support the targets of growth and social development. Although almost all conventional resources exist in Turkey, these resources are not sufficient to meet the energy demand, except for lignite and hydro. More than half of the energy demand is met through imports to Turkey and in the future energy demand will increase in parallel with the country's development and industrialization.

According to the IEA's 2001 report, Turkey's primary energy consumption has increased 5,6% over the last thirty years, which is approximately four times of European countries' 1–1,5% increase in primary energy consumption for the same period.

Diversification of energy mix is essential in order to meet the electricity demand in a secure manner. In this regard, to increase energy resources together with the nuclear energy in overall electricity production, Law No: 5346, dated 2005 on the use of Electricity Production was revised in 2007 to create a more conducive climate for the use of those resources and to include nuclear energy into the electricity supply mix. Draft Law on "Building and Operation of Nuclear Power Plants and Sale of Energy" was transmitted to the parliament and was accepted (S.P.O. Energy Report, 2008: 116).

In other words, after the Electricity Market Law, the private sector will lead in new investments coupled with the privatization of the electricity generation plants. The range of capital cost per kW will play an important role in the selection of technology in the future, and reductions in the capital costs of nuclear power plants would favor investment in nuclear energy by private investors.

In Turkey, where past investment in electricity had been insufficient, attracting private investment has been the most important factor in privatization and restructuring of electricity sector. Both the privatization and deregulation efforts in 1980s and 1990s and the restructuring efforts in 2001 have remained in background requirement of ensuring funds urgently for needed investments in the electricity sector. However, it is very early to assess the performance of the new structure of the Turkish electricity sector (Özkıvrak, 2005: 1350). Turkey is planning to erect 2-3 nuclear plants (10,000 – 15,000 MW) because the expected energy consumption patterns are likely to impose unbearable economic burdens and environmental problems. Therefore, late in 2004 Turkish Government announced plans to build three plants totaling 4500 MW by 2011. Early in 2006 the province of the port city of Sinop on the Black Sea was chosen to host a commercial nuclear power plant. This has the advantage of cooling water temperatures around five degrees below those at Akkuyu (Mersin), allowing about 1% greater power output from any thermal unit.

New nuclear plants can be deployed in Turkey within a decade with sufficient timely public/private collaboration. Turkey should give priority to its local energy resources, especially new nuclear plants, for completing projects related to electricity production.

This is why we believe that a network of nuclear power plants would help Turkey in diversifying energy sources, reducing its vulnerability to supply shocks and ensuring environmental sustainability.

Turkey's Primary Energy Consumption during the period 2000-2010 is given at the Table 2 below:

	Electricity(Mtoe)	Gas(Mtoe)	Coal(Mtoe)	Oil(Mt)	Total
2000	8.4	12.7	25.5	31.1	77.7
2001	8.3	14.4	21.8	29.9	74.4
2002	8.8	15.6	21.2	30.6	76.2
2003	9.6	18.8	21.8	31.2	81.4
2004	10.5	19.9	23.0	32.0	85.4
2005	10.9	21.5	27.7	32.7	92.8
2006	11.6	23.8	28.8	33.4	97.6
2007	12.3	26.2	29.9	34.2	102.6
2008	13.0	28.7	31.1	34.9	107.7
2009	13.7	31.5	32.3	35.6	113.1
2010	14.5	34.4	33.6	36.3	118.8

Source: Çermikli and Gökçe, 2006

Therefore, forecasts of Turkey's energy market in 2010 reveal that while previously oil was the major source of energy consumption, the weights of coal, natural gas, and oil will come closer to each other. As it can be seen in Table 2, in 2010 30% of energy consumption will be met by oil, and the shares of natural gas and coal will approximately be 28% each (Çermikli and Gökçe, 2006: 265).

In other words, Turkey's energy import dependency has been increasing constantly. As a solution to this problem, nuclear energy would lessen oil dependence and ensure environmental sustainability. Given that renewables provide a limited supply of energy, nuclear power is a worthwhile alternative that could improve self-sufficiency in energy generation as well as reduce greenhouse gas emissions.

Eastern Europe and nuclear energy

After the collapse of the centralized socialist regimes in 1989, many of the Eastern Europe Countries experienced significant changes. They faced high inflation as a consequence of price liberalization, as well as slow growth, due to the process of restructuring the economy.

Eastern European countries, among which are Hungary, Czech Republic, Poland and the Russian Federation, must have cheap and abundant energy to advance the welfare of their citizens through their economic developments. In this regard, Russia seeks support to modernize its energy sector and keep it to itself. For example, in July 2008 Russia announced plans to allocate \$40 million from the state budget over the next 7 years for the development of the nuclear energy sector and the nuclear industry. This will allow the construction of 26 major generating units in Russia by 2020 – about as many as those which were built in the entire Soviet period.

There are strong technical, safety-related, and economic grounds for nuclear cooperation between Russia and the former allies of Soviet Union in Eastern and Central Europe (Fisher, 1994: 59). The nuclear programs of CEE countries have obviously been seriously affected by the transition to market economies and its consequences on the decision-making framework within the context of overall economic conditions (Semenov et al, 1993:5).

On the other hand, Russia still has proven oil reserves of 6% of the world total reserves. However, there are concerns that oil production might have reached another peak. There are two factors at play in this situation which involves an increase in production costs: First, the brown fields in W. Siberia and the Volga-Urals are maturing, and while they still have many years of productive life, the process of extracting further oil is becoming more difficult and, as a result, more expensive. Second, green fields in frontier regions such as East Siberia and the Continental Shelf in the Arctic Sea remain relatively underdeveloped. (Goldsworthy, 2010: 6)

Countries that once belonged to the Eastern European bloc, which had a rather rigid and centrally planned economic system, have developed nuclear power on a considerable scale as a source for electricity generation (Semenov et al, 1993: 1). For example, at the end of the 1992, Russia had 28 nuclear power plants with a total capacity of 18.9 gigawatts electric.

Table 1: Nuclear Energy and Electricity Consumption Projections in Selected Former Soviet Union Countries

(2000-2050)						
	Total Population (Million)		Total Electricity Consumption (Billion Whr)		Nuclear Production (GWe)	
	2000	2050	2000	2050	2000	2050
Country						
Russian Federation	145	104	767.1	904	115	271
Czech Republic	10	8	54.7	74	10	22
Hungary	10	7	35.1	43	14	22
Ukraine	50	30	151.7	120	12	22
Poland	39	33	119.3	133	13	27

Source: MIT, 2003.

When we consider the Russia and Europe relationship, on the one hand, the EU's concentration has been on rising energy provisions from Russia and on the other hand, this leaves fairly free hands for the member states to follow their own agenda with Russia on a bilateral level including the interconnection of electricity grids and improved cooperation in the nuclear energy field (Genç, 2009: 21).

If the Czech Republic builds new nuclear power plants, as it plans to do, it is also likely to obtain them from Western suppliers. (Fisher, 1994: 55) Nowadays, most of the Czech public supports further expansion of nuclear power use (60% in 2007) seeing it as the only realistic chance to deal with the future energy crisis. However, each country provides its own data on cost levels and these vary considerably from country to country. Base construction costs for nuclear power plants range from \$ 1000 per kW installed in the Czech Republic to \$ 2500 per kW in Japan; coal-fired plants were in the range \$1000 to \$1500 per kW but gas-fired plants are significantly lower, ranging from \$ 500 to \$1000 per kW. O&M and fuel costs (and their escalation) also vary considerably by country. The lowest costs for nuclear production were recorded in S.Korea, the Czech Republic, Canada and France, and the highest in Japan (Ritch, 2005: 24-25).

RESULTS AND DISCUSSION

The finance of nuclear power

Traditionally, nuclear, coal and run of river hydro facilities usually run as base load, while gas/oil plants and hydro with storage ponds are more flexible and therefore dispatched mid-merit and to meet peak demand (Hooper and Medvedev, 2008: 12).

Financing costs per kW for nuclear plants have fallen considerably due to standardized design, shorter construction times and more efficient generating technologies. Further gains are expected as nuclear technology becomes even more standardized around a few globally accepted designs. Meanwhile, recent new-build experience has demonstrated that new plants can be built on time and on budget (Ritch, 2006: 8).

Financing costs for new nuclear plants, a critical component of nuclear economics, are expected to fall as new approaches are developed and tested to increase certainty and to lower investors' risk. Meanwhile, in many countries, license procedures are being streamlined - a development facilitated by the nuclear industry's strong worldwide safety performance (Gale, 2005: 8).

In a balance sheet financing, therefore, the sponsor absorbs the full risks of cost overruns, revenue shortfalls, and changes in regulation, changes in circumstances, and all other "ups and downs" in the project lifespan. These are "full recourse" financings, where a creditworthy entity - such as a substantial power utility, a sovereign entity or group of creditworthy end-users - would assume 100% liability for all debt service payments under the financing (Troy, 2007: 8).

Examples of "balance sheet" financings for a nuclear power station include the construction of the nuclear station by a regulated power utility, which develops the facility under traditional "cost of service" rate regulations and finances it as part of the utility's ongoing regulated operations. Lenders would rely on the general credit of such entity for repayment of the loans and would price the loans in line with its general creditworthiness.

Another nuclear power plant financing is the construction of the nuclear station by a group of creditworthy end-users who are looking for a stable, low-cost supply of energy and finances it through equity injections or other recourse financing.

Investments in commercial nuclear generating facilities will only be forthcoming if investors expect that the cost of producing electricity using nuclear power will be lower than the risk-adjusted costs associated with alternative electric generation technologies. Since nuclear power plants have relatively high capital costs and very low marginal operating costs, nuclear energy will compete with alternative electricity generation sources for base load operation.

If fossil fuel use is significantly penalized by carbon taxes or emissions trading regimes, the competitiveness of new nuclear plants improves further. Nuclear power represents a large capital investment in the range of US\$ 1500-2000/kW. The financing plan for the procurement of the plant will probably involve a number of

sources, the sum of which needs careful management since long term commitments, in some cases extending up to 20–25 years, are involved (Rastas, 2006: 20).

Investments in nuclear power plant financing are not a function of global capital availability. In 2006, some \$4.2 trillion were raised in the global capital markets, 5% or \$230 billion of which was invested in the energy sector. So, nuclear power financing is not related to capital availability per se. But rather is subject to the political, economic, commercial and operational factors and other investment opportunities that offer “better” returns.

In fact, if the public sector wishes to invest in nuclear power as part of its socioeconomic development priorities, finance problem is not a real obstacle. It becomes an issue in the presence of other equally important development needs and private sector participation is sought.

Determinants of nuclear energy economics

Macro-economics has increasingly led the financial community to assess the economic competitiveness of nuclear energy. Once a power plant is built, there is no risk premium at all associated with its operation; but investors’ perception of the risk for a new nuclear project is still relatively high. Thus, there is still a significant risk premium associated with the initial investment.

The bottom line is a “risk-reward” analysis, which translates for most potential investors into a request for a high return on investment. To make things happen, we need to tackle each side of the problem: the risk and the reward (Lauvergeon, 2005: 2). In the past, debates on nuclear economy have been dominated by the estimates of construction costs. However, the much poorer reliability of nuclear plants than expected in some countries as well as the increasing focus on the economic risk of building a nuclear power plant; indicate the other two factors that deserve comparable attention. Other significant elements in the economics of nuclear power are the operating cost, including the cost of fuel and the expected lifetime (Schneider et al, 2009: 44).

From an economic perspective, the operation of a nuclear power enterprise embodies a series of major processes that include several distinct, but strongly interrelated phases.

This economic life cycle begins with extensive planning, engineering and construction, extends throughout the operational phase (including life extension) and concludes with decommissioning.

There are five different roles for the government in promoting nuclear energy as stated in a MIT publication (Joskow, 2003: 83). These are respectively:

- i) assuring that nuclear energy is considered on the same basis as other technologies that reduce carbon emissions,
- ii) taking steps to reduce regulatory uncertainty,
- iii) providing partial support for industry projects that demonstrate the economic competitiveness of nuclear energy,
- (iv) nuclear technology R&D, and
- (v) reauthorizing (Price Andersen) nuclear accident insurance.

Nuclear energy costs versus fuel and coal

The comparative economics of nuclear power plants depends on local conditions, discount rates and the cost of other fuels like coal and gas. The issues to be addressed in a comparative techno-economic analysis include the location of coal mines close to load centers, coal transportation, the availability of railroads for transportation, the ash content of the fuel and the associated environment impacts.

In this regard, the competitiveness of nuclear power compared to coal-fired power varies depending on how far away the coal-fired plant is from the mine that supplies its coal. If the coal fired plant can be located close enough to the pit-head, it will be cheaper than the nuclear power. But if, in order to be close to the load centre it serves, the coal fired plant were more than 1200 km away from the coal pit-head, then nuclear power is more competitive.

Expressed in a different way, one may say that economics of a coal fired power plant is location dependent, while that of a nuclear power plant is location independent. This depends on capital cost, Operation and Maintenance (O&M) cost and the fuel cost. For a nuclear power plant, capital cost is higher than a conventional coal-fired power plant.

Capital costs are incurred while the generating plant is under construction and include expenditure on the necessary equipment, engineering and labor. These are often quoted as “Overnight” costs which are exclusive of interest accruing during the construction period. They include engineer-procure-construct (EPC) costs, owners’ costs and various contingencies. Once the plant is completed and electricity sales begin, the plant owner begins to repay the sum of the overnight and accrued interest charges. The price charged must cover not only these costs, but also annual fuel costs and expenditure on operation and O&M of the plant (Gale: 2005: 18). Nuclear plants have relatively high capital costs but low marginal operating costs. They run most economically at very high load factors, supplying the demand for “base load” electricity.

On the other hand, energy cost of a kW of electric generating capacity depends on the number of hours it is used. For instance, a generator of 1kW that is producing for a year of 8760 h, provides $1 \times 8760 = 8760$ kWh. If it uses a fuel that costs \$0.2 kWh, then the total fuel cost will be $1 \times 0.2 \times 8760 = \1752 . This can be considered a component of the total variable cost. There are of course other costs which we called fixed costs. Call this F, and for this example make it equal to \$10,000. Then the total cost for 8760h of operation becomes \$ 1,752.

As already indicated, this fixed cost (F) can be designated as the capital cost (Banks, 2007: 324). Non-fuel operating expenses also can be broken down into fixed and variable cost components and are generally assumed to increase at the rate of inflation, though in some cases a real escalation rate is included (MIT Study: 2003: 143). Nuclear power is cost competitive with other forms of electricity generation, except where there is direct access to low-cost fossil fuels. Fuel costs for nuclear plants are a minor proportion of total generating costs, though capital costs are greater than those for coal-fired plants. In assessing the cost competitiveness of nuclear energy, decommissioning and waste disposal costs are taken into account. In other words, the decision making process of selecting a decommissioning option, typically made during the operating phase of a nuclear power, may have serious implications with regard to the total cost of electricity production (IEAE, 2006: 15).

Nuclear plant revenues and operating expenses

The real levelized cost of electricity production is used to assess the economic competitiveness of alternative generating technologies. A project’s real levelized cost can be computed using discounted cash flow analysis, as described below. (It can be seen in the Tables 3 and 4 below)

Revenues and expenses are projected over the life of the project and discounted at rates sufficient to satisfy the interest and principal repayment obligations to debt investors and the minimum hurdle rate (cost of equity capital) required by equity investors. The sole source of revenue for the power plant is the sale of electricity. Annual revenue is the product of the quantity of electricity produced and its price. The plant’s net capacity and capacity factor determine the annual electric generation.

An alternate method, based on traditional regulated utility revenue requirement calculations is often used to calculate levelized costs for generating technologies. This approach has two problems: first, it fails to account properly for inflation and yield levelized nominal cost numbers that cannot easily be compared across technologies with different capital intensities. Second, it imposes a particular capital cost repayment profile that, while consistent with the way regulated investments were treated, is not consistent with the merchant generation investment environment that now characterizes the US, Western Europe and a growing number of other countries (MIT Study, 2003: 141).

Table 3: Combined Cycle Gas Turbine (CCGT) Base Case Cash Flows (Nominal Dollars)

YEAR	1	2	3	5	10	20	30	40
Elec. price(cents/kWh)	4.25	4.28	4.51	4.78	5.54	7.45	10.01	13.45
Revenue(\$ million)	317	326	336	356	413	555	746	1,003
Operating Expenses (\$ million)								
- Fuel Cost	196	205	215	234	293	457	712	1,111
- Waste Fee	-	-	-	-	-	-	-	-
- Fixed O&M	16	17	18	19	23	34	51	76
- Variable O&M	4	4	4	5	6	9	13	19
- Decommissioning	-	-	-	-	-	-	-	-
- Incremental cap.	6	6	7	7	8	11	15	20

Operating Income	94	93	93	91	83	45	-45a	-223a
Depreciation (tax)	24	45	41	33	28	0	0	0
Interest Payments	26	24	22	18	4	0	0	0
Dept Principal Repaymt.	22	24	26	30	44	0	0	0
Taxable Income	44	24	30	40	51	45	0	0
Net Profit	29	36	33	28	16	28	-45a	-223a

(a) For the purpose of comparing energy supply options, plant operation is not terminated when operating costs exceed revenues.

Source: MIT Study, 2003

Waste and Decommissioning costs, which are included in the operational costs of nuclear plants, represent a tiny fraction of the lifetime costs of a reactor's operation. Nuclear plant economics are thus largely insensitive to these costs and will become even less so as fuel efficiency continues to increase and as waste and decommissioning costs are spread over reactor lifetimes that are becoming even longer (Gale, 2005: 8).

If the resultant operating income (revenues less operating expenses) is insufficient to cover the entire debt payment in any year, the electricity price is raised until all debt payments can be made. If the debt service constraint is binding, the realized return on equity will then exceed the minimum required return specified.

Table 4: Nuclear Base Case Cash Flows (Nominal dollars)

YEAR	1	2	3	5	10	20	30	40
Elec. price(cents/kWh)	6.91	7.12	7.33	7.78	9.02	12.12	16.28	21.88
Revenue(\$ million)	515	530	546	579	672	903	1,213	16.31
Operating Expenses (\$ million)								
- Fuel Cost	38	39	40	43	51	73	103	145
- Waste Fee	8	8	8	9	10	13	18	24
- Fixed O&M	66	68	71	77	94	139	206	306
Decommissioning	9	9	9	9	9	9	9	9
- Incremental cap.	21	21	22	23	27	36	49	65
Operating Income	370	381	391	414	475	625	817	1,063
Depreciation (Tax)	92	174	157	127	108	0	0	0
Interest Payments	92	86	79	64	13	0	0	0
Debt Principal Repaymt.	80	86	93	108	159	0	0	0
Taxable Income	186	121	156	223	354	625	817	1,063
Income tax paym.	71	46	59	85	135	237	310	404
Net Profit	127	163	160	157	169	387	506	659

Source: MIT Study, 2003

Investment returns, interest on debt accrues during construction and is repaid with the principal in equal annual payments over the specified term of the debt. Equity holders invest funds during construction and receive profits net of taxes and debt obligations during plant operation (MIT Study, 2003: 144).

Owing to the capital intensive nature of the nuclear power business, as well as to the relatively high operating expenditures, the economic consequence of any one phase may have serious, far reaching implications for the economic success or failure of the others.

Consequently, if we take two different alternatives into account in the Tables 3 and 4, it is clear that, after the 40 years of nuclear activities, "Nuclear Base Cash Flows" can make 659 million \$ net profit, while alternative Combined Cycle Gas Turbine base cash flows make a-223 million loss.

CONCLUSION

Technological innovation is crucial to the re-shaping of energy systems in ways that encourage sustainable development. The innovation process requires investment not only in R&D but also starting up the market diffusion of nuclear energy technologies. In this regard, there is a need for international institutional

mechanism to channel private-sector resources and both bilateral and multilateral public-sector resources from around the world to the developing countries for technological innovation activities of nuclear energy.

Turkey is seeking to cover an imminent shortfall in electricity as well as cut its dependence on foreign energy resources. The government's plan is to designate nuclear energy an essential source of energy, meeting at least one-fifth of Turkey's power needs within the next two decades.

Some of the Eastern Europe countries' natural resources of energy are running dry, which is increasing their reliance on energy imports except Russia. The basic solution to reduce this dependence is to develop nuclear energy. Reliable and sustainable energy sources, especially nuclear ones, are needed to preserve the living standards in the Eastern Europe region.

Energy policy as a major economic performance indicator will significantly influence management decisions and strategy development concerning the timing and duration of planned nuclear outages and risk management associated with the sale of nuclear generation by power purchase agreements, bilateral contracts or spot market bidding arrangements.

In this regard, first effort must be focusing on developing a comprehensive energy strategy that includes a clearly stated investment and macroeconomic policy direction and addresses all the key issues - production, trade, consumption, research and investment in nuclear energy.

It is clear that if the present rate of growth of energy demand continues for another two or three decades, the need for more nuclear-based power will be indispensable. Nuclear power is a part of the energy policy promoted by the Eastern Europe Countries to develop the nuclear energy as part of the European policy, considering sustainable development, security of energy supply and competitiveness.

Government's support is a pre-requisite to any Nuclear Power Plant project and financing in the developing countries. We believe that the governments should step in and increase the likelihood of practical demonstration of nuclear power by providing financial incentive to the first movers in Turkey and the Eastern Europe region.

The global energy demand will be mainly identified by the developments in the developing countries and in emerging economies such as China and India. Eastern Europe Countries, except Russia, will have the chance to benefit from nuclear energy if they built economically competitive smaller reactors to match the grid sizes of many countries.

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RECOMPUTATION OF UNDP'S HDI RANKINGS BY DATA ENVELOPMENT ANALYSIS

**Mehmet Tolga Taner
Bülent Sezen
Lütfihak Alpkın
Selim Aren
Gebze Institute of Technology, Turkey**

ABSTRACT

The HDI has played an influential role in the debate on human development. No index is perfect and so is the Human Development Index of United Nations Development Program. This paper aims to measure the performance of 182 countries in terms of performance by means of non-parametric input oriented CRS employed Data Envelopment Analysis. In addition, it elaborates on the cut-off values assigned by UNDP to categorize the countries. By means of this research, countries will be able to choose those elements by benchmarking from other countries that are applicable and most likely to develop strategy formulation processes for human development and international growth.

INTRODUCTION

Today, normalised measures of life expectancy, literacy, educational attainment, and GDP per capita are considered to be the main indicators of development for countries worldwide. These three indicators are unified to give a measure of development, namely the Human Development Index (HDI). HDI has been first used in the United Nations Development Program's (UNDP) World Development Report. Since the first publication of this annual report in 1990, UNDP has been seeking to explore the concept and measurement of global human development.

The Human Development Index (HDI) computes and assigns a single, scalar value to each country of the world based on three components of human development. This simple measure has changed the global debate on development and influenced public policy around the world. Criticism and proposed alternatives abound, yet the index has managed to maintain its popularity and simplicity with only minor modifications over the years of 1991, 1994, 1995, 1999 and 2005. The HDI was developed to measure "the basic concept of human development to enlarge people's choices" (Ul Haq, 1995). It was also designed as an alternative to the use of GDP per capita alone as a measure of human development. To these ends, it must be concluded that the HDI has achieved overwhelming success. However, it is still prone to criticisms as it lacks the means to correctly measure and analyse the annual performance of countries.

Ul Haq stated that the purpose of the HDI was to measure at least a few more choices besides income and to reflect them in a methodologically sound composite index. Indeed, the HDI has included only a limited number of indicators to keep it simple and manageable. This simple HDI algorithm is still being used today and calculated from regularly available data to produce a meaningful number that can be used to compare and rank countries across the world.

Up-to-date, critics on HDI have claimed that it uses very few or the wrong indicators. Others allege that it presents an oversimplified view of human development and added that a pure economic model focusing on growth alone should set the tone on discourse regarding human development. In fact, some of these critics have developed their own novel indices or have resulted in the modification of HDI. But, collecting reliable data continues to be the major obstacle in the poorest countries (Harkness, 2004). Regarding health and longevity, Harkness notes that mortality data are most likely to be missing in countries where mortality is the highest. According to another critic, both the resources allocated throughout a country and the levels of inequality that may exist across the country are not taken into account in the HDI index (Foster, 2005; Ul Haq, 1995). In recent years, most critics have taken issue with the equal weights assigned to each of the

respective indicators of the index (Mahlberg and Obersteiner, 2001; Chowdhury and Squire, 2006) but assigning differing weights have been proven to be unnecessary (Stapleton and Garrod, 2007). And yet, the HDI has been extensively criticised for its lack of desirable statistical properties.

To overcome the deficiencies of previous traditional parametric approaches and weighing problems, Data Envelopment Analysis can be employed. To measure the HDI, this analysis has been firstly used by Mahlberg and Obersteiner in 2001. The following year, Lozano and Gutierrez proposed a new DEA model that computes a range-adjusted measure (RAM) of efficiency for HDI and Lee et al. (2006) made use of a fuzzy multiple objective DEA for the HDI. In 2005, the HDI of the Asian and Pacific countries were calculated by Despotis (2005). Having automatically overcome the subjectivity difficulties in weighing the component indices, this technique analyses the inherent properties of the data by a different approach.

METHOD

Data Envelopment Analysis (DEA) is a data-oriented technique which has been proven to be an effective tool in evaluating relative efficiency. It is a nonparametric method of measuring the efficiency of a decision-making unit (DMU) such as a country, first introduced into Operations Research literature by Charnes, Cooper and Rhodes in 1978. Recent years have seen a great variety of applications of DEA for use in evaluating the performances of many different kinds of entities engaged in many different activities in many different contexts in many different countries such as sports, logistics, hospitals, universities, cities, business firms etc. Because it requires very few assumptions, DEA has opened up possibilities for use in cases which have been resistant to other approaches because of the complex and often unknown nature of relations between the multiple inputs and multiple outputs involved in the DMUs.

Throughout the paper, we use decision making units (DMUs) to represent countries. Each DMU is assumed to have a constant input and represented by three outputs, i.e. HDI component indicators (life expectancy index (LEI), education index (EI) and GDP per capita index (GDPI)). The DEA model used assumes an input oriented radial CRS technology.

The main advantages of DEA are: (1) Multiple inputs and outputs can be used effectively, while ascertaining efficiency, and a specific production function is not required; (2) The decision maker does not need prior information about weights of inputs and outputs; and (3) For each DMU, efficiency is compared to that of an ideal operating unit, rather than to the average performance.

The HDI is based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and combined primary, secondary and tertiary enrolment ratios; and standard of living, as measured by real GDPI (Purchasing Power Parity in US\$). To calculate the dimension indices, UNDP has assigned minimum and maximum values (goalposts) for each underlying indicators. Performance in each dimension is then calculated and expressed as a value between 0% and 100%. Then, the HDI is calculated as a simple average of the dimension indices by basic algebra. In UNDP's approach, this was followed by assigning (equal) weights to each dimension index given as follows:

$$\text{HDI} = x. (\text{LEI}) + y. (\text{EI}) + z. (\text{GDPI}) \quad (\text{where } x = y = z = 1/3).$$

whereas, in our approach, the indices are analyzed by the use of linear programming methods to construct a non-parametric piece-wise surface over the data. The CRS surface is presented by a straight line that starts at the origin and passes through the first DMU that it meets as it approaches the observed population. The models with CRS envelopment surface assume that an increase in inputs will result in a proportional increase in outputs. Efficiency measures are then calculated relative to this surface. For the purpose of analyzing the data, Efficiency Measurement System (EMS) is used. The inherent weights for the inputs and outputs are assigned by the model itself.

The essence of the CRS model is the ratio of maximization of the ratio of weighted multiple outputs to weighted multiple inputs. Any country compared to others should have an efficiency score of 100% or less. The efficiency score in the presence of multiple input and output indicators is defined as:

$$\text{Efficiency} = \text{Weighted sum of outputs} / \text{Weighted sum of inputs}$$

Assuming that there are n DMUs, each of with i inputs and j outputs, the relative efficiency score of a test DMU m is obtained by solving the following model proposed by [Charnes et. al., 1978]:

$$Max \frac{\sum_{j=1}^J v_{mj} y_{mj}}{\sum_{i=1}^I u_{mi} x_{mi}}$$

$$0 \leq \frac{\sum_{j=1}^J v_{mj} y_{nj}}{\sum_{i=1}^I u_{mi} x_{ni}} \leq 1; n = 1, 2, \dots, N$$

$$v_{mj}, u_{mi} \geq 0; i = 1, 2, \dots, I; j = 1, 2, \dots, J$$

y_{mj} = amount of output j produced by DMU m .
 v_{mj} = weight given to output j

x_{mi} = amount of input i utilised by DMU m .
 u_{mi} = weight given to input i

The above model is run n times in identifying the relative efficiency scores of all DMUs. Each DMU selects input and output weights that maximize its efficiency score. In general, a DMU is considered to be efficient if it obtains an efficiency score of 100% and a score of less than 100% implies that it is inefficient.

ANALYSIS

Unlike the HDI, the DEA scores on Table 1 are relative measures. Each country is compared with the best practice countries when it assesses its composite performance on the human development indicators. As shown in Table 1, the EMS analysis has yielded differences in country rankings between the UNDP and DEA approaches. The DEA approach identified a group of 20 optimally performing countries that are defined as efficient and assigns them an efficiency score of 100%. These efficient countries are then used to create an “efficiency frontier” or “data envelope” against which all other countries are compared. In sum, countries that require relatively more weighted inputs to produce weighted outputs, or, alternatively, produce less weighted output per weighted inputs than do countries on the efficient frontier, are considered technically inefficient. They are given efficiency scores of less than 100%, but greater than 0%.

Table 1 HDR 2009 Data and DEA Rankings

UNDP ranking	DMU	HDI	Efficiency Score	GDP per capita index	Education Index	Life Expectancy Index	DEA ranking
1	Norway	0,971	100,00%	1,000	0,989	0,925	1
2	Australia	0,970	100,00%	0,977	0,993	0,940	1
3	Iceland	0,969	100,00%	0,981	0,980	0,946	1
4	Canada	0,966	99,85%	0,982	0,991	0,927	21
5	Ireland	0,965	100,00%	1,000	0,985	0,911	1
6	Netherlands	0,964	99,59%	0,994	0,985	0,914	22
7	Sweden	0,963	99,41%	0,986	0,974	0,930	24
8	France	0,961	99,09%	0,971	0,978	0,933	25
9	Switzerland	0,960	100,00%	1,000	0,936	0,945	1
10	Japan	0,960	100,00%	0,971	0,949	0,961	1
11	Luxembourg	0,960	100,00%	1,000	0,975	0,906	1
12	Finland	0,959	100,00%	0,975	0,993	0,908	1
13	United States	0,956	100,00%	1,000	0,968	0,902	1
14	Austria	0,955	98,86%	0,989	0,962	0,915	26
15	Spain	0,955	98,59%	0,960	0,975	0,929	29
16	Denmark	0,955	100,00%	0,983	0,993	0,887	1
17	Belgium	0,953	98,41%	0,977	0,974	0,908	30
18	Italy	0,951	98,71%	0,954	0,965	0,935	27
19	Liechtenstein	0,951	100,00%	1,000	0,949	0,903	1
20	New Zealand	0,950	100,00%	0,936	0,993	0,919	1
21	United Kingdom	0,947	97,83%	0,978	0,957	0,906	32
22	Germany	0,947	97,81%	0,975	0,954	0,913	33
23	Singapore	0,944	100,00%	1,000	0,913	0,920	1
24	Hong Kong	0,944	100,00%	1,000	0,879	0,953	1
25	Greece	0,942	98,71%	0,944	0,981	0,902	28
26	Republic of Korea	0,937	99,50%	0,920	0,988	0,904	23
27	Israel	0,935	97,58%	0,930	0,947	0,928	35

28	Andorra	0,934	100,00%	1,000	0,877	0,925	1
29	Slovenia	0,929	97,58%	0,933	0,969	0,886	34
30	Brunei	0,920	100,00%	1,000	0,891	0,867	1
31	Kuwait	0,916	100,00%	1,000	0,872	0,875	1
32	Cyprus	0,914	95,12%	0,920	0,910	0,910	47
33	Qatar	0,910	100,00%	1,000	0,888	0,841	1
34	Portugal	0,909	94,49%	0,906	0,929	0,893	52
35	United Arab Emirates	0,903	100,00%	1,000	0,838	0,872	1
36	Czech Republic	0,903	94,44%	0,916	0,938	0,856	53
37	Barbados	0,903	98,12%	0,866	0,975	0,867	31
38	Malta	0,902	94,70%	0,908	0,887	0,910	50
39	Bahrain	0,895	95,04%	0,950	0,893	0,843	49
40	Estonia	0,883	97,05%	0,887	0,964	0,799	38
41	Poland	0,880	95,88%	0,847	0,952	0,842	44
42	Slovakia	0,880	93,44%	0,885	0,928	0,827	57
43	Hungary	0,879	96,64%	0,874	0,960	0,805	42
44	Chile	0,878	94,00%	0,823	0,919	0,891	54
45	Croatia	0,871	92,17%	0,847	0,916	0,850	63
46	Lithuania	0,870	97,40%	0,863	0,968	0,780	36
47	Antigua and Barbuda	0,868	95,12%	0,873	0,945	0,786	48
48	Latvia	0,866	96,71%	0,851	0,961	0,788	40
49	Argentina	0,866	95,27%	0,815	0,946	0,836	46
50	Uruguay	0,865	96,17%	0,788	0,955	0,852	43
51	Cuba	0,863	100,00%	0,706	0,993	0,891	1
52	Bahamas	0,856	88,79%	0,886	0,878	0,804	93
53	Mexico	0,854	90,00%	0,826	0,886	0,850	78
54	Costa Rica	0,854	93,19%	0,782	0,883	0,896	58
55	Libya	0,847	90,38%	0,829	0,898	0,814	74
56	Oman	0,846	90,63%	0,906	0,790	0,841	71
57	Seychelles	0,845	89,23%	0,851	0,886	0,797	89
58	Venezuela	0,844	92,70%	0,801	0,921	0,811	59
59	Saudi Arabia	0,843	90,72%	0,907	0,828	0,794	70
60	Panama	0,840	89,49%	0,790	0,888	0,842	85
61	Bulgaria	0,840	93,59%	0,788	0,930	0,802	56
62	Saint Kitts and Nevis	0,838	90,16%	0,830	0,896	0,787	76
63	Romania	0,837	92,07%	0,804	0,915	0,792	64
64	Trinidad and Tobago	0,837	91,13%	0,911	0,861	0,737	68
65	Montenegro	0,834	89,70%	0,795	0,891	0,817	81
66	Malaysia	0,829	86,60%	0,819	0,851	0,819	103
67	Serbia	0,826	89,70%	0,773	0,891	0,816	80
68	Belarus	0,826	96,77%	0,782	0,961	0,733	39
69	Saint Lucia	0,821	89,52%	0,765	0,889	0,810	84
70	Albania	0,818	90,60%	0,710	0,886	0,858	72
71	Russian Federation	0,817	93,94%	0,833	0,933	0,686	55
72	The Former Yugoslav Republic of Macedonia	0,817	88,61%	0,753	0,880	0,819	96
73	Dominica	0,814	90,01%	0,729	0,848	0,865	77
74	Grenada	0,813	89,07%	0,717	0,884	0,838	92
75	Brazil	0,813	89,67%	0,761	0,891	0,787	83
76	Bosnia and Herzegovina	0,812	88,51%	0,726	0,874	0,834	98
77	Colombia	0,807	88,69%	0,743	0,881	0,795	94
78	Peru	0,806	89,70%	0,728	0,891	0,800	82
79	Turkey	0,806	83,36%	0,812	0,828	0,779	117
80	Ecuador	0,806	88,12%	0,719	0,866	0,833	99
81	Mauritius	0,804	84,45%	0,789	0,839	0,785	115
82	Kazakhstan	0,804	97,10%	0,782	0,965	0,666	37
83	Lebanon	0,803	86,32%	0,770	0,857	0,781	104
84	Armenia	0,798	91,49%	0,675	0,909	0,810	66
85	Ukraine	0,796	96,65%	0,707	0,960	0,720	41
86	Azerbaijan	0,787	88,67%	0,728	0,881	0,751	95
87	Thailand	0,783	89,37%	0,734	0,888	0,728	88
88	Iran	0,782	81,15%	0,784	0,793	0,769	126
89	Georgia	0,778	92,18%	0,641	0,916	0,777	62
90	Dominican Republic	0,777	84,50%	0,702	0,839	0,790	114
91	Saint Vincent and the Grenadines	0,772	82,30%	0,725	0,817	0,774	120
92	China	0,772	85,67%	0,665	0,851	0,799	106
93	Belize	0,772	88,52%	0,703	0,762	0,851	97
94	Samoa	0,771	91,10%	0,634	0,905	0,773	69
95	Maldives	0,771	89,07%	0,659	0,885	0,768	91
96	Jordan	0,770	87,56%	0,650	0,870	0,790	101

97	Suriname	0,769	85,58%	0,727	0,850	0,729	107
98	Tunisia	0,769	84,64%	0,721	0,772	0,813	112
99	Tonga	0,768	92,61%	0,605	0,920	0,778	60
100	Jamaica	0,766	83,91%	0,686	0,834	0,778	116
101	Paraguay	0,761	87,67%	0,633	0,871	0,778	100
102	SriLanka	0,759	85,88%	0,626	0,834	0,816	105
103	Gabon	0,755	84,99%	0,838	0,843	0,584	110
104	Algeria	0,754	81,86%	0,726	0,748	0,787	123
105	Philippines	0,751	89,41%	0,589	0,888	0,777	87
106	ElSalvador	0,747	81,31%	0,678	0,794	0,771	125
107	Syria	0,742	85,08%	0,636	0,773	0,818	109
108	Fiji	0,741	87,37%	0,628	0,868	0,728	102
109	Turkmenistan	0,739	91,25%	0,651	0,906	0,661	67
110	Occupied Palestinian Territories	0,737	89,22%	0,519	0,886	0,806	90
111	Indonesia	0,734	84,61%	0,603	0,840	0,758	113
112	Honduras	0,732	82,59%	0,607	0,806	0,783	119
113	Bolivia	0,729	89,77%	0,624	0,892	0,673	79
114	Guyana	0,729	94,56%	0,555	0,939	0,691	51
115	Mongolia	0,727	91,87%	0,580	0,913	0,687	65
116	VietNam	0,725	85,47%	0,544	0,810	0,821	108
117	Moldova	0,720	90,46%	0,541	0,899	0,722	73
118	Equatorial Guinea	0,719	95,54%	0,955	0,787	0,415	45
119	Uzbekistan	0,710	89,43%	0,532	0,888	0,711	86
120	Kyrgyzstan	0,710	92,38%	0,500	0,918	0,710	61
121	Cape Verde	0,708	80,87%	0,570	0,786	0,769	127
122	Guatemala	0,704	78,22%	0,638	0,723	0,752	130
123	Egypt	0,703	77,94%	0,664	0,697	0,749	131
124	Nicaragua	0,699	82,74%	0,542	0,760	0,795	118
125	Botswana	0,694	82,00%	0,820	0,788	0,473	121
126	Vanuatu	0,693	77,85%	0,601	0,728	0,748	132
127	Tajikistan	0,688	90,25%	0,478	0,896	0,691	75
128	Namibia	0,686	81,60%	0,658	0,811	0,590	124
129	SouthAfrica	0,683	84,84%	0,765	0,843	0,442	111
130	Morocco	0,654	79,83%	0,620	0,574	0,767	128
131	Sao Tome and Principe	0,651	81,87%	0,467	0,813	0,673	122
132	Bhutan	0,619	70,52%	0,647	0,533	0,678	141
133	Lao	0,619	69,70%	0,513	0,683	0,659	143
134	India	0,612	66,92%	0,553	0,643	0,639	151
135	Solomon Islands	0,610	70,91%	0,475	0,676	0,680	138
136	Congo	0,601	74,07%	0,594	0,736	0,474	134
137	Cambodia	0,593	70,85%	0,483	0,704	0,593	139
138	Myanmar	0,586	79,23%	0,368	0,787	0,603	129
139	Comoros	0,576	69,26%	0,407	0,655	0,666	145
140	Yemen	0,575	64,96%	0,526	0,574	0,624	153
141	Pakistan	0,572	71,44%	0,537	0,492	0,687	137
142	Swaziland	0,572	73,56%	0,646	0,731	0,339	135
143	Angola	0,564	67,26%	0,665	0,667	0,359	150
144	Nepal	0,553	71,64%	0,392	0,579	0,688	136
145	Madagascar	0,543	68,01%	0,373	0,676	0,582	148
146	Bangladesh	0,543	70,53%	0,420	0,530	0,678	140
147	Kenya	0,541	69,42%	0,457	0,690	0,477	144
148	Papua New Guinea	0,541	61,85%	0,507	0,521	0,594	160
149	Haiti	0,532	62,45%	0,408	0,588	0,600	158
150	Sudan	0,531	56,97%	0,507	0,539	0,548	165
151	Tanzania	0,530	67,76%	0,416	0,673	0,500	149
152	Ghana	0,526	62,59%	0,432	0,622	0,525	156
153	Cameroon	0,523	63,11%	0,510	0,627	0,431	155
154	Mauritania	0,520	55,46%	0,494	0,541	0,526	170
155	Djibouti	0,520	55,75%	0,505	0,554	0,501	168
156	Lesotho	0,514	75,80%	0,457	0,753	0,332	133
157	Uganda	0,514	70,29%	0,394	0,698	0,449	142
158	Nigeria	0,511	66,12%	0,497	0,657	0,378	151
159	Togo	0,499	64,47%	0,345	0,534	0,620	154
160	Malawi	0,493	68,96%	0,339	0,685	0,456	146
161	Benin	0,492	62,49%	0,430	0,445	0,601	157
162	Timor Leste	0,489	61,87%	0,329	0,545	0,595	159
163	Cote d'Ivoire	0,484	55,21%	0,472	0,450	0,531	171
164	Zambia	0,481	68,67%	0,435	0,682	0,326	147
165	Eritrea	0,472	59,33%	0,306	0,539	0,570	163
166	Senegal	0,464	52,64%	0,469	0,417	0,506	173
167	Rwanda	0,460	61,07%	0,360	0,607	0,412	162

168	Gambia	0,456	53,17%	0,418	0,439	0,511	172
169	Liberia	0,442	57,76%	0,215	0,562	0,548	164
170	Guinea	0,435	56,02%	0,406	0,361	0,538	167
171	Ethiopia	0,414	51,59%	0,343	0,403	0,496	174
172	Mozambique	0,402	48,17%	0,348	0,478	0,380	175
173	Guinea Bissau	0,396	55,60%	0,261	0,552	0,375	169
174	Burundi	0,394	56,25%	0,205	0,559	0,418	166
175	Chad	0,392	44,94%	0,449	0,334	0,393	177
176	Democratic Republic of the Congo	0,389	61,26%	0,182	0,608	0,377	161
177	Burkina Faso	0,389	48,10%	0,404	0,301	0,462	176
178	Mali	0,371	40,24%	0,398	0,331	0,385	181
179	Central African Republic	0,369	42,20%	0,328	0,419	0,361	179
180	Sierra Leone	0,365	40,54%	0,320	0,403	0,371	180
181	Afghanistan	0,352	39,31%	0,393	0,354	0,310	182
182	Niger	0,340	44,80%	0,307	0,282	0,431	178

We compared the DEA efficiency scores with HDI values. Pearson correlation coefficient of 0.958 shows that the two indices are highly correlated. Despite this strong correlation, there are also some notable differences between the two measurements.

DISCUSSION

Benchmarks

DEA analysis shows that Australia is the country that is the most frequently used as a reference by the inefficient countries (115 times or by the 63% of the inefficient countries). The corresponding frequencies for Denmark and Japan are 94 (52%) and 58 (32%), respectively. Therefore, both Australia and Denmark can be regarded as role model countries.

Cluster Analysis

The basis of UNDP's classification of 182 countries into 4 groups (shown in Table 2) is based on a simple leveling structure. A better method for determining the real cut-offs between countries is the cluster analysis. In a previous research, Wolff et al. (2009) have examined the consequences of data error in data series used to construct aggregate indicators and found that up to 45% of developing countries were misclassified in HDR 2008. Our analysis of corrected HDI and DEA-based cutoffs are given in Table 3. Grouping of countries by means of cluster analysis is given in Table 4. In addition, the ranking results of DEA have also been examined by cluster analysis. The countries have again been classified in four groups. However, there are substantial differences between the groupings of HDI and DEA.

Table 2 Classification of countries according to HDR, 2009

	No. of countries	UNDP's lower cut-off (HDI)	UNDP's upper cut-off (HDI)
Very High Human Development $0.900 \leq \text{HDI} < 1.000$	38	0.902	0.971
High Human Development $0.800 \leq \text{HDI} < 0.900$	45	0.803	0.895
Medium Human Development $0.500 \leq \text{HDI} < 0.800$	75	0.511	0.798
Low Human Development $\text{HDI} < 0.500$	24	0.340	0.499

Table 3 Corrected and DEA cutoffs classifying the 182 countries

	Group no.	No. of countries	Lower cut-off	Upper cut-off
Corrected HDI	1	66	0.829	0.971
	2	63	0.683	0.826
	3	30	0.499	0.654
	4	23	0.340	0.493
DEA	1	84	90.00%	100.00%
	2	57	70.53%	89.49%
	3	33	52.64%	70.29%
	4	8	39.31%	48.17%

Corrected groups of HDI has differed from the former one in many terms. Firstly, Group 1 now includes many of the recently EC-integrated countries such as Estonia, Poland, Slovakia, Hungary, Lithuania, Latvia, Bulgaria and Romania. Secondly, South and Central American countries has appeared in Group 1 for the first time. These countries include Chile, Argentina, Uruguay, Costa Rica, Venezuela, Panama and Trinidad Tobago. It should be noted that Argentina, Uruguay and Venezuela are full members of Mercosur. Thirdly, none of the African countries are categorized in Group 1. Next, Group 2 now includes the majority of Asian, Turkic and North African countries. Last, whereas Group 4 includes mostly the Central African countries.

According to the classification by DEA, all ex-USSR countries except Azerbaijan and Uzbekistan have moved to Group 1 from Group 2 due to their high adult literacy rate. In return, Bahamas and Malaysia have moved to Group 2 from Group 1 due to their relatively low EI. Equatorial Guinea have moved to Group 1 from Group 2 due to its high GDP per capita of 30.627 USD. In return, Panama has moved from Group 1 to Group 2 due to its relatively low GDP per capita.

Moving from Group 3 to Group 2 has required countries to have superiority over other countries in any of the two indicators. For instance, Pakistan has higher GDP per capita (0.537 versus 0.526) and life expectancy (0.687 versus 0.624) indices than Yemen. Therefore, Pakistan has moved to the upper group whereas the group of Yemen has remained the same.

It should be noted that high education index is proven to be the most important criterion while grouping the countries by DEA. All countries moving from Group 4 to Group 3 such as Malawi, Zambia and Rwanda have enjoyed relatively higher adult literacy rates. It is also observed that countries with the lowest efficiency scores are mainly from the Central African countries.

Table 4 Classification of countries by Cluster Analysis

	Group 1	Group 2	Group 3	Group 4
Corrected HDI	Norway, Australia, Iceland, Canada, Ireland, Netherlands, Sweden, France, Switzerland, Japan, Luxembourg, Finland, United States, Austria, Spain, Denmark, Belgium, Italy, Liechtenstein, New Zealand, United Kingdom, Germany, Singapore, Hong Kong, Greece, Republic of Korea, Israel, Andorra, Slovenia, Brunei, Kuwait, Cyprus, Qatar, Portugal, United Arab Emirates, Czech Republic, Barbados, Malta, Bahrain, Estonia, Poland, Slovakia, Hungary, Chile, Croatia, Lithuania, Antigua and Barbuda, Latvia, Argentina, Uruguay, Cuba, Bahamas, Mexico, Costa Rica, Libya, Oman, Seychelles, Venezuela, Saudi Arabia, Panama, Bulgaria, Saint Kitts and Nevis, Romania, Trinidad and Tobago, Montenegro, Malaysia	Serbia, Belarus, Saint Lucia, Albania, Russian Federation, the Former Yugoslav Republic of Macedonia, Dominica, Grenada, Brazil, Bosnia and Herzegovina, Colombia, Peru, Turkey, Ecuador, Mauritius, Kazakhstan, Lebanon, Armenia, Ukraine, Azerbaijan, Thailand, Iran, Georgia, Dominican Republic, Saint Vincent and the Grenadines, China, Belize, Samoa, Maldives, Jordan, Suriname, Tunisia, Tonga, Jamaica, Paraguay, Sri Lanka, Gabon, Algeria, Philippines, El Salvador, Syria, Fiji, Turkmenistan, Occupied Palestinian Territories, Indonesia Honduras, Bolivia, Guyana, Mongolia, Vietnam, Moldova Equatorial Guinea, Uzbekistan, Kyrgyzstan, Cape Verde, Guatemala, Egypt, Nicaragua, Botswana, Vanuatu, Tajikistan, Namibia, South Africa	Morocco, Sao Tome and Principe, Bhutan, Lao, India, Solomon Islands, Congo, Cambodia, Myanmar, Comoros, Yemen, Pakistan, Swaziland, Angola, Nepal, Madagascar, Bangladesh, Kenya, Papua New Guinea, Haiti, Sudan, Tanzania, Ghana, Cameroon, Mauritania, Djibouti, Lesotho, Uganda, Nigeria, Togo	Malawi, Benin, Timor Leste, Cote d'Ivoire, Zambia, Eritrea, Senegal, Rwanda, Gambia, Liberia, Guinea, Ethiopia, Mozambique, Guinea Bissau, Burundi, Chad, Democratic Republic of the Congo, Burkina Faso, Mali, Central African Republic, Sierra Leone Afghanistan, Niger

DEA	Norway, Australia, Iceland, Canada, Ireland, Netherlands, Sweden, France, Switzerland, Japan, Luxembourg, Finland, United States, Austria, Spain, Denmark, Belgium, Italy, Liechtenstein, New Zealand, United Kingdom, Germany, Singapore, Hong Kong, Greece, Republic of Korea, Israel, Andorra, Slovenia, Brunei, Kuwait, Cyprus, Qatar, Portugal, United Arab Emirates, Czech Republic, Barbados, Malta, Bahrain, Estonia, Poland, Slovakia, Hungary, Chile, Croatia, Lithuania, Antigua and Barbuda, Latvia, Argentina, Uruguay, Cuba, Mexico, Costa Rica, Libya, Oman, Venezuela, Saudi Arabia, Bulgaria, Saint Kitts and Nevis, Romania, Trinidad and Tobago, Montenegro, Serbia, Belarus, Saint Lucia, Albania, Russian Federation, Dominica, Brazil, Peru, Kazakhstan, Armenia, Ukraine, Georgia, Samoa, Tonga, Turkmenistan, Bolivia, Guyana, Mongolia, Moldova, Equatorial Guinea, Kyrgyzstan, Tajikistan	Bahamas, Seychelles, Panama, , Malaysia, Namibia, South Africa, the Former Yugoslav Republic of Macedonia, Grenada, Bosnia and Herzegovina, Colombia, Turkey, Ecuador, Mauritius, Lebanon, Azerbaijan, Thailand, Iran, Dominican Republic, Saint Vincent and the Grenadines, China, Belize, Maldives, Jordan, Suriname, Tunisia, Jamaica, Paraguay, Sri Lanka, Gabon, Algeria, Philippines, El Salvador, Syria, Fiji, Occupied Palestinian Territories, Indonesia, Honduras, Vietnam, Uzbekistan, Cape Verde, Guatemala, Egypt, Nicaragua, Botswana, Vanuatu, Namibia, South Africa, Morocco, Sao Tome and Principe, Bhutan, Solomon Islands, Congo, Cambodia, Myanmar, Pakistan, Swaziland, Nepal, Bangladesh, Lesotho	Lao, India, Comoros, Yemen, Angola, Madagascar, Kenya, Papua New Guinea, Haiti, Sudan, Tanzania, Ghana, Cameroon, Mauritania, Djibouti, Uganda, Nigeria, Togo	Mozambique, Chad, Burkina Faso, Mali, Central African Republic, Sierra Leone, Afghanistan, Niger
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CONCLUSIONS

It is true that the HDI has brought the global community closer and inspired a united effort in the common cause of improving the human condition for those dwelling in the darkest corners of the world. It is also true that HDI is a simple and universal index. However, this index has been very subjective and not been scientifically successful in correctly categorizing the countries. To overcome this problem, cluster analysis has been used.

The proposed approach in this paper differs from the previous HDI assessments since it does not need to assign any subjective weights to EI, LEI and GDPI. It also differs from the previous DEA applications on HDI assessment by clustering countries by means of DEA-based cutoff points.

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MANAGEMENT OF AGRICULTURE COMPLEX OF RUSSIA MAINTAINING FOOD SECURITY (THE REGIONAL ASPECT)

**Kuznesov Nicolay G
Soldatova Uliay V**

Rostov State University of Economic, Russia

**Ovchinnikov Viktor N
Chernyshev Michael A
Soldatova Irina Y**

South Federal University, Russia

ABSTRACT

The main object of this paper is the food safety of the Russian Federation – it is such a state of the country's economy when food independence of the Russian Federation is provided, physical and economic availability of food stuffs, corresponding to the requirements of Russian Federation legislation in safety and quality, is guaranteed for the population of the country. Realization of Russia's national interests in this field is a key problem.

Regional peculiarity is considered to be one of the most important aspects in methodology of managing economy in agrarian sector. Regional support system becomes dominant amongst the other sources of state support system in agro business.

Key Words: *food safety of the Russian Federation, agro-industrial complex of the Russia, regional aspect of the agroindustrial complex*

I. INTRODUCTION

Food safety of the Russian Federation – it is such a state of the country's economy when food independence of the Russian Federation is provided, physical and economic availability of food stuffs, corresponding to the requirements of Russian Federation legislation in safety and quality, is guaranteed for the population of the country.

Realization of Russia's national interests in this field is a key problem.

Regional peculiarity is considered to be one of the most important aspects in methodology of managing economy in agrarian sector. Regional support system becomes dominant amongst the other sources of state support system in agro business. Effectiveness of regional policy shows itself in flexibility, high opportunities in controlling the usage of budgetary means. Absence of prerequisites on a federal level, rapidly decreases the effectiveness of budgetary means regulation. “Russia is striving to be a part of world trade system, it also hopes to strengthen and to bring the relations with all its partners to a higher level”¹, said D. Medvedev.

II. RESEARCH QUESTION, DISCUSSION AND SHORT LITERATURE REVIEW

Despite steps taken, the potential of agro-industrial complex of the country is used not fully, and the state of food safety causes serious apprehension.

Problems of provisions safety become more and more important in the regulation of world agricultural trade. Russian economists Arhipov,ⁱⁱ Altukhovⁱⁱⁱ, Vermel^{iv}, Gordeyev^v, Shmelev^{vi} and others state that “food safety” is as “food independence” because of the significant economic dependence of Russia on import of food and raw material.

The food independence according to them is an ability of a country's agricultural sector to provide manufacture, storage, processing and supply of the country population with the basic kinds of the foodstuffs in the quantity and assortment necessary for an active healthy life. Ushachev^{vii} has the same approach to the definition and uses the term “Reliable food maintenance”. According to the opinions of Glazyev, Gordeyev, Zeldner^{viii}, Illarionov^{ix}, Ivanchenko^x, Miloserdov, Semchagov, Gorddev^{xi} a country's food safety is not provided if manufacture of the vital food stuffs meets less than 80-75% basic needs of the population according to physiological norms.

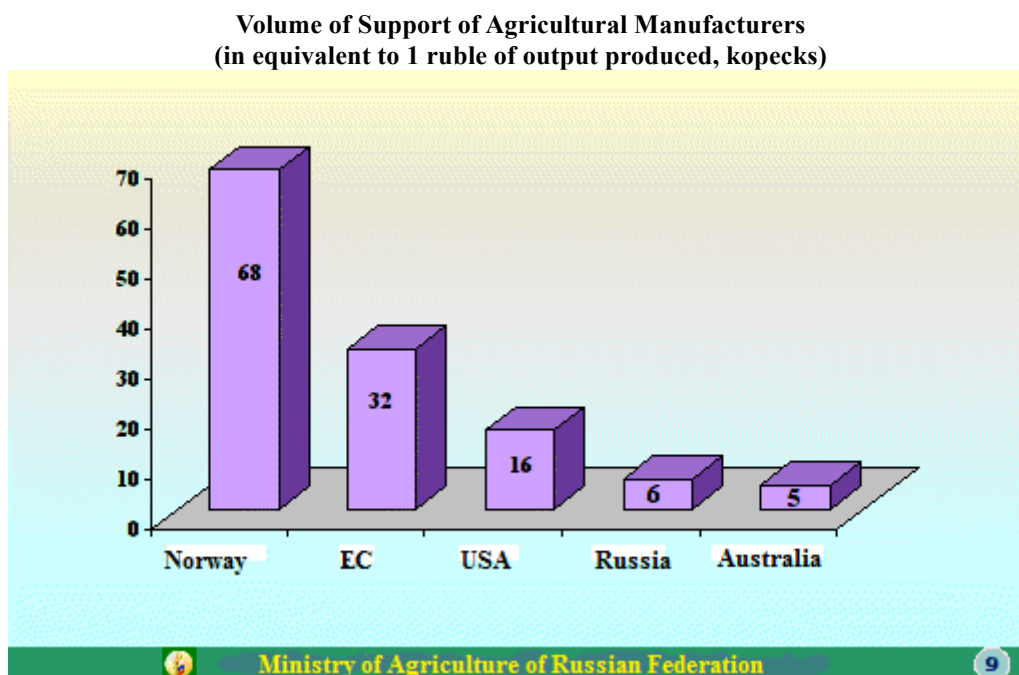
High import dependence of the country in separate kinds of agricultural produce and food stuff is preserved. It forms nowadays 36% of goods resources at food market. The problem of import dependence is quite acute at the market of live-stock produce. The share of import in goods resource of meat is estimated in 41%, milk – in 27%.

The tendency to the growth of sufficient share of import is preserved, and in live-stock produce it is increased. Import of pork has increased by 29% from the beginning of 2009, and dry milk – almost in 2 times. All this increases the dependence of food market and seriously infringes upon Russian agriculture interests.

By the forecasts of international organizations the world food stuff situation in the nearest decade will sharpen. Highly developed states apply two principal approaches for providing food safety: the first – the priority in support of national agricultural manufacturer (EC countries)^{xii}, the second – equal support of agricultural manufacturers and food consumers (USA). It is proposed in Russia to use the support of both consumers and commodity manufacturers.

At present the average volume of budget support of agricultural manufacturers in Russia (slide 1) is less than in the USA in 2,7 times, in EC countries – in 5,4 times. Natural-climatic conditions for the production of agricultural output is considerably more complicated in Russia.

Table 1



Government policy in the sphere of food safety guarantee shall consider **risks and threats** which may weaken it sufficiently. They include such factors as deficit of qualified personnel, price disproportion, modern systems of supervision over the state of production market.

Food safety in Russia may be considered as guaranteed^{xiii}, if, with the flow of food stuff from abroad terminated, food stuff crisis does not occur at the expense of high share in consumption of home-made agricultural raw and food: potato – 95%, grain, milk and milk products – 90%; edible salt – 85%; meat and meat products – 85%, fish and fish products, sugar, oil – 80%.

To compare these figures with those we are having today, the balance is broken considerably in providing the population with meat and milk produce.

To get closer to the level of developed countries we are to solve simultaneously several interconnected and capital-intensive tasks:

1. technological upgrading of agriculture and food industry, spheres of industrial service of AIC;
2. forming of personnel potential of the branch capable to master innovations;
3. carrying out works for restoration abandoned land;
4. creation of modern social infrastructure of farm territories (housing, roads, etc.)

To provide financial-economic stability of agricultural output it is necessary to conduct constant monitoring of price parity between agricultural sector and other sectors of economics, to use indicative prices for taking steps in providing efficient output of meat, milk, grain, sugar and other vital food stuff timely.

III. THERE ARE THE FOLLOWING PROBLEMS IN THE EFFICIENCY OF AGRICULTURAL FOOD SECTOR

1. There is a high difference in population's earnings. It is enormous in town and in the countryside, i. e. it is the result of considerable quantity and quality differences in nourishment. The average consumption of fiber of animal origin per capita by socially unprotected population is particular low.

2. The main internal factors defining the condition of agro-industrial and fishery complexes are imperfection of micro-economic terms, backlog in the development of innovation activity and social sphere, deficit of qualified personnel.

3. Such external factors as considerable growth of solvent demand in developing countries, intensive development of bio-energetic in developed countries, reduction of world reserves in food stuff, the development of world financial and fund crisis increase the influence on the security of food safety. The food more and more becomes one of the major key factors of political and economic pressure in international relations.

4. Entering World Trade Organization (WTO) for meeting national interests of the Russian Federation, will also advance in strengthening food safety of the country.

Guarantee of food safety is linked with risks which may weaken it. Such risks include:

1. macroeconomic risks caused by sharp fluctuations of world prices for some goods of Russian export and the food stuff imported from foreign countries;
2. natural and technogenic risks;
3. technological risks;
4. agro-ecological risks;
5. social risks;
6. trade-economic risks;
7. political risks.

Guarantee of food safety is connected with the overcoming of negative factors which have a complex character and are caused by the following:

1. considerable increase of threshold value of the criteria of domestic market saturation by import output, for example, - meat;
2. low level of paying capacity of the population for food stuff;
3. price disproportion at the markets of agricultural, fish output and food stuff on one side and material-technical resources on the other;
4. disturbance of stability of financial-credit system;
5. insufficient level of development of domestic market infrastructure;
6. moral and physical aging of material-technical basis of agro-industrial and fishery complexes;
7. insufficient level of innovation and investment activities;
8. reduction of national genetic resources;
9. probable expansion of bio-fuel output from agricultural products and raw;
10. lack of qualified personnel.

This paper will consider one more complex aspect of the country's integration to world community – entering of the country, Rostov region to WTO.

VI. METHODOLOGY

The main methodological principle of research is institutionalism. Methods used in the paper: statistical methods, graphic methods and etc. All the data used from Reference Materials on social-economic complex of Russia, Rostov-on-Don region, from various foreign resources during last years.

CONCLUSION

Set of official opinions in connection with targets, tasks and principal trends of government policy for the provision of food safety of the country, formation of such economy of the country when food independence of the Russian Federation is provided, physical and economic availability for the country's population of food stuff, meeting the requirements of Russian Federation legislation, is guaranteed.

Realization of expressed proposals and their justified reasoning in the paper will allow to provide food safety of the Russian Federation and Rostov region as an important component of the country's economic safety.

Effectiveness of regional policy shows itself in flexibility, high opportunities in controlling the usage of budgetary means. Absence of prerequisites on a federal level, rapidly decreases the effectiveness of budgetary means regulation. The leading role at solving the problem of food safety shall be given to regional management, in this project to the Rostov region, in the following aspects:

to provide the region with food stuff in quantity, quality and assortment equal to population size;

to guarantee food stuff quality to the population;

to provide economic availability of food stuff.

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